



Audit and Governance Committee

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The Audit and Governance Committee meets in the Court Room of the Town Hall which is located on the ground floor. Entrance is via the main door or access ramp at the front of the Town Hall. Parking bays for blue badge holders are available in front of the Town Hall and in the car park at the rear of the Town Hall.



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MEMBERS: Councillor Ungar (Chairman); Councillor Mattock (Deputy-Chairman); Councillors Belsey, Cooke, Harris, Heaps, Taylor and Tester

Agenda

- 1 Minutes of the meeting held on 25 September 2013 - Previously circulated.**
- 2 Apologies for absence.**
- 3 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct (please see note at end of agenda).**
- 4 Questions by members of the public.**

On matters not already included on the agenda and for which prior written notice has been given (total time allowed 15 minutes).

5 Urgent items of business.

The Chairman to notify the Committee of any items of urgent business to be added to the agenda.

6 Right to address the meeting/order of business.

The Chairman to report any requests received to address the Committee from a member of the public or from a Councillor in respect of an item listed below and to invite the Committee to consider taking such items at the commencement of the meeting.

7 Update - Members' and Standards. (Pages 1 - 4)

Report of Monitoring Officer.

8 Update - The Regulation of Investigatory Powers Act (RIPA) and related legislation. (Pages 5 - 6)

Report of Monitoring Officer.

9 Council Tax and Business Rates Collection and Enforcement Policy. (Pages 7 - 30)

Report of Revenues & Benefits Manager.

10 Annual Audit Letter 2012/13. (Pages 31 - 38)

Report of External Auditors BDO.

11 Internal Audit Report to 30th September 2013. (Pages 39 - 56)

Report of Internal Audit Manager.

12 Treasury Management Mid-year Review. (Pages 57 - 70)

Report of Chief Finance Officer.

Inspection of Background Papers – Please see contact details listed in each report.

Councillor Right of Address - Councillors wishing to address the meeting who are not members of the Committee must notify the Chairman in advance.

Public Right of Address – Requests by members of the public to speak on a matter which is listed in this agenda must be **received** in writing by no later than 12 Noon, 2 working days before the meeting e.g. if the meeting is on a Tuesday, received by 12

Noon on the preceding Friday). The request should be made to Local Democracy at the address listed below. The request may be made by letter, fax or e-mail. For further details on the rules about speaking at meetings please contact Local Democracy.

Disclosure of interests - Members should declare their interest in a matter at the beginning of the meeting, and again, at the point at which that agenda item is introduced.

Members must declare the existence and nature of any interest.

In the case of a DPI, if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation). If a member has a DPI he/she may not make representations first.

Further Information

Councillor contact details, committee membership lists and other related information is also available from Local Democracy.

Local Democracy, 1 Grove Road, Eastbourne, BN21 4TW
Tel: (01323) 415021/5023 Minicom: (01323) 415111, Fax: (01323) 410322
E Mail: localdemocracy@eastbourne.gov.uk
Website at www.eastbourne.gov.uk

For general Council enquiries, please telephone (01323) 410000 or E-mail: enquiries@eastbourne.gov.uk

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Agenda Item 7

Body:	AUDIT AND GOVERNANCE COMMITTEE
Date:	4 December 2013
Subject:	Members and Standards: an update
Report Of:	LAWYER TO THE COUNCIL AND MONITORING OFFICER
Ward(s)	All
Purpose	To assist the Audit and Governance Committee in fulfilling its obligations in relation to member standards.
Recommendations:	<p>That the Committee note the following:</p> <ul style="list-style-type: none">• The information supplied to it regarding complaints against members either received in or determined since the last quarterly report• Other relevant information supplied to it regarding member training
Contact:	<p>Victoria Simpson, Lawyer to the Council and Monitoring Officer, Telephone 01323 415018 or internally on extension 5018. E-mail address: victoria.simpson@eastbourne.gov.uk</p>

1.0 Background

1.1 Members will recall their longstanding invitation to the Monitoring Officer to provide quarterly updates on Standards-related matters. This report aims to update the Committee on the standards and related issues which have arisen since the Committee's last meeting.

2.0 Complaints

2.1 No new formal complaints against members have been received in during this quarter. As none remain outstanding from previous quarters, no complaints await determination at time of writing.

3.1 Dispensations

3.2 Since the last quarterly report, dispensations were applied for and granted to all Liberal Democrat members of Cabinet to enable them to participate in discussions and in voting on all matters relating to Information Technology provision for members, this to include the setting of relevant member allowances as well as policies and guidance. Those dispensations will remain in force until end of May 2015 provided that the facts which gave rise to them do not change. Members have been notified accordingly.

4.1 Member training

- 4.1 Members will recall that a session on Standards was arranged some time in advance for a date in November 2013. At the behest of the Standards Panel, the session's remit was to assist members in deepening their understanding of the relationship between the Code of Conduct for Members and the Protocol for Member/Officer Relations. It also aimed to provide an update on other Standards-related matters arising.
- 4.2 Regrettably the above training session has had to be postponed (to a date at the end of January 2014) when it transpired that the majority of members were unable to attend on the allocated date. While this is clearly a setback, new invitations are due to be sent out shortly by Member Services and individual members of this Committee will no doubt encourage their colleagues to keep the new date free if at all possible. The independent persons have also been asked to attend the new date.
- 4.3 This Committee will be mindful that its terms of reference include the reviewing and monitoring of member training and development not just in relation to Standards and ethics but also across all the areas considered necessary to equip members to perform their roles effectively. With this in mind members are invited to note the sessions provided recently to the members of the authority's two primary regulatory committees: the Planning and Licensing Act and General Licensing Committees.
- 4.4 Between 1.4.12 and 30.3.13, three sessions were held for members of Planning Committee and three sessions for members of the Licensing Act and General Licensing Committees. Between 1.4.13 and 1.10.13, two sessions were held for Planning Committee members while a session held outside the borough had been made available to Eastbourne's Licensing Committee members in late November 2013. The figures for the take up of the latter session were not available at time of writing.
- 4.5 The subject matter of the sessions included updates on relevant areas. These included the changes to permitted development rights in Planning law and changes to Temporary Event Notices as a result of the Police Reform and Social Responsibility Act. Attendance at the both types of training averaged around ten members, which is considered a fair proportion of the total number of members who currently sit on each (twelve on Planning Committee and thirteen on the Licensing Committees).

5.0 Consultation

- 5.1 There has been no consultation.

6.0 Resource Implications

- 6.1 None.

7.0 Financial

- 7.1 None.

8.0 Staffing

8.1 None.

9.0 Conclusion

9.1 The requirement that authorities have in place arrangements to monitor member conduct and to promote effective decision-making remains a feature of the current Standards regime. This report updates the Committee and assists it in discharging its responsibilities in this regard, and in fulfilling its remit as defined in the Committee's terms of reference.

Victoria Simpson

LAWYER TO THE COUNCIL AND MONITORING OFFICER

Appendices:

None

Background Papers:

Previous reports and minutes of the Committee and Panel.

Articles in the Local Government Lawyer

ACSeS bulletins

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Agenda Item 8

Body:	AUDIT AND GOVERNANCE COMMITTEE
Date:	4 December 2013
Subject:	The Regulation of Investigatory Powers Act and related legislation: update on the authority's usage of its powers
Report Of:	LAWYER TO THE COUNCIL AND MONITORING OFFICER
Ward(s)	All
Purpose	To provide the Audit and Governance Committee with information to enable it the authority's usage of its powers to conduct covert surveillance pursuant to the Regulation of Investigatory Powers Act
Recommendations:	That the Committee note that no applications were made by officers of this authority pursuant to the Regulation of Investigatory Powers Act to conduct covert surveillance during the quarter leading up to 1 December 2013.
Contact:	Victoria Simpson, Lawyer to the Council and Monitoring Officer, Telephone 01323 415018 or internally on extension 5018. E-mail address: victoria.simpson@eastbourne.gov.uk

1.0 Background

- 1.1 Members will recall that the Audit and Governance Committee has agreed to receive quarterly reports on the authority's usage of its powers to conduct covert surveillance pursuant to the Regulation of Investigatory Powers Act.

2.0 Usage of the powers available to Eastbourne Borough Council under the Regulation of Investigatory Powers Act

- 2.1 The quarterly returns compiled for the period 1/9/2013 to 1/12/2013 include the following data:

RIPA applications for the use or conduct of a CHIS:

Nil applications made by EBC

Nil applications by partner organisations with which the authority is working on relevant matters.

RIPA applications for authorised surveillance:

Nil applications made by EBC

Nil applications made by partner organisations with which the authority is working on relevant matters.

- 2.2 The Committee will note that the returns for this quarter are consistent with EBC's very infrequent recourse to the powers available to it under RIPA in recent years. The last applications by the authority for authorised surveillance were during 2010 and concerned serious allegations of benefit fraud.

3.0 Consultation

3.1 None.

4.0 Resource Implications

4.1 None.

5.0 Financial

5.1 None.

6.0 Staffing

6.1 None.

7.0 Conclusion

7.1 This report updates the Committee on the authority's arrangements for and usage of its powers to conduct covert surveillance when circumstances merit. The report aims to equip this Committee to assist the authority in ensuring it applies a robust approach which balances its enforcement responsibilities with the requirement to act at all times in a proportionate and human rights-compliant way.

Victoria Simpson
LAWYER TO THE COUNCIL AND MONITORING OFFICER

Appendices

None

Background Papers:

Previous reports and minutes of this Committee and of Cabinet.

Articles in the Local Government Lawyer

ACSeS bulletins

Body: Audit & Governance

Date: 4 December 2013

Subject: Council Tax and Business Rates Collection and Recovery Policy

Report Of: Bill McCafferty, Revenues & Benefits Manager

Ward(s) All

Purpose To provide a policy for the collection of Council Tax and Business Rates.

Recommendation: That the policy is adopted.

Contact: Bill McCafferty, Revenues and Benefits Manager, Telephone 01323 415171 or internally on extension 5171.
E-mail address: bill.mccafferty@eastbourne.gov.uk

1.0 Background

- 1.1 Council Tax is the contribution made by residents of Eastbourne to help meet the costs of services provided by the Council, the County Council, the Fire Service and the Police Service.
- 1.2 In 2013/14 the total Council Tax due to be collected is c£52m on c47,000 properties. Of the Council Tax collected, the Council retain 14%, with approximately 72% going to the County Council, 5% to the Fire Service and 9% to the Police.
- 1.3 There are certain discounts and exemptions available to people, for example people living on their own can get a 25% Single Person Discount and the Council operate a Local Council Tax Reduction scheme to help people on a low income to pay their Council Tax.
- 1.4 Business Rates (National Non-Domestic Rates) is a charge levied on commercial properties. There are certain discounts and exemptions available to businesses.

In 2013/14 there is c£34m of Business Rates to collect on c2,800 properties.

2.0 Collection and Recovery Policy

- 2.1 The policy (Appendix A) is intended to set the framework within which, along with the statutory provisions, the Council will seek to collect the taxes and to recover any unpaid Council Tax and Business Rates.
- 2.2 In drafting the Policy account has been taken of the Citizens Advice Bureau's 'Collection of Council Tax Arrears Good Practice Protocol' and the Department for Communities and Local Government's 'Guidance to local councils on good

practice in the collection of Council Tax arrears’.

For example, the Revenues team are in the processes of signing up to the CAB protocol.

2.3 The aims of the policy are:

1. To bill customers accurately and in a timely manner
2. To help customers get the discounts and exemptions they are entitled to
3. To comply with relevant legislation
4. To take into account guidance and best practice
5. To collect taxes due in a fair and efficient manner
6. To provide payment methods that are convenient to the taxpayer
7. To discharge the Council’s duty in relation to the recovery of Council Tax and Business Rates
8. To take recovery action taking into account individual’s circumstances as far as practicable
9. To make use of distress or committal only as a last resort
10. To treat individuals consistently and fairly, regardless of age, sex, gender, disability, race and sexual orientation
11. To protect individuals rights under Data protection and Human Rights legislation

3.0 Legislative Requirements

3.1 The Council Tax (Administration and Enforcement) Regulations 1992 (as amended) and the Non-Domestic Rating (Collection and Enforcement) (Local lists) Regulations 1989) (as amended) provide for the manner in which Council Tax and Business Rates are to be collected.

3.2 The process for collection of both tax and rates is set out in the Policy. The policy complies with the requirements of the relevant legislation

3.3 The Revenues team has in the last two months reviewed and revised the statutory documentation it sends to tax payers. The Citizens Advice Bureau was given the opportunity to review the notices in draft form. They did not make any recommendation on changes to the text.

4.0 Consultation

4.1 Consultation has taken place with the following organisations:

- Citizens Advice Bureau

- Disability Involvement Group
- East Sussex Credit Union
- Salvation Army
- Eastbourne Cultural Communities Network
- Crime Reduction Partnership
- East Sussex County Council
- Activating Eastbourne

4.2 There was very little feedback apart from that of the CAB. Their comments surrounded issues that will be addressed by the Council agreeing to the protocol referred to at 2.2.

5.0 Resource Implications

5.1 Financial

The efficient and effective collection of Council Tax will increase the Council's cash flow and allow Council Tax to be set at as low a rate as possible.

5.2 Staffing

A robust policy provides a framework within which staff can operate.

6.0 Anti-Poverty

6.1 The Council are aware that, in the current economic climate, some people and businesses will face difficulties paying their Council Tax and/or Business Rates. Whilst the Council will be sympathetic, any unpaid taxes can only add to those

6.2 The Council offer a variety of ways to pay and several instalment dates to accommodate individual's circumstances. We will also enter into special arrangements with people who are experiencing severe difficulties.

6.3 The Council Tax documentation gives details of where people can go for advice if they are struggling to meet their commitments.

7.0 Equalities

7.1 An Equality & Fairness analysis has been carried out (Appendix B)

8.0 Conclusion (this should include a summary of the reasons for the recommendations).

That the policy provides a suitable framework for the collection of taxes and rates and should be adopted by the Council for the reasons given in the report.

Lead officer name: Bill McCafferty
job title: Revenues and Benefits Manager

Appendix A – Council Tax & Business Rates Collection and Recovery Policy
Background Papers

Appendix B – Equality & Fairness analysis

The Background Papers used in compiling this report were as follows:

'Guidance to local councils on good practice in the collection of Council Tax arrears' –
DCLG May 2013

'Collection of Council Tax arrears – Good practice Protocol' – Citizens Advice Bureau
2009

To inspect or obtain copies of background papers please refer to the contact officer
listed above.

(document reference)

**EASTBOURNE BOROUGH COUNCIL
COUNCIL TAX AND BUSINESS RATES
COLLECTION AND RECOVERY POLICY**

Contents

1. Background
2. Aims of the policy
3. Billing procedures
4. Payment methods
5. Collection procedures
6. Enforcement procedures
7. Write-Off
8. Court costs

1 Background

Council Tax is the contribution made by the residents and owners of domestic properties in the Borough for the many services Eastbourne Borough Council provides such as collecting rubbish, providing housing, funding for the police and fire services, schools and social services.

The level of Council Tax payable by residents in the Eastbourne area is decided annually and consists of a contribution towards services provided by East Sussex County Council, Eastbourne Borough Council, The Police and Crime Commissioner for Sussex and East Sussex Fire and Rescue Service.

Business Rates is also known as National Non-Domestic Rates (NNDR) and is a tax that is charged on properties that are used for a wide range of purposes, which does not include domestic or residential use. Examples of properties, which are subject to a Business Rates charge include shops, factories, offices and beach huts. The Council does not keep the money that is for Business Rates. The Council gives the money directly to the Government. All Business Rates collected in England is put into a central pool. The money from the pool is distributed back to Councils by the Government, according to how much they feel is needed to contribute towards the services that we provide.

2 Aims of the policy

1. To bill customers accurately and in a timely manner
2. To help customers get the discounts and exemptions they are entitled to
3. To comply with relevant legislation
4. To take into account guidance and best practice
5. To collect taxes due in a fair and efficient manner
6. To provide payment methods that are convenient to the taxpayer
7. To discharge the Council's duty in relation to the recovery of Council Tax and Business Rates
8. To take recovery action taking into account individual's circumstances as far as practicable
9. To make use of distress or committal only as a last resort
10. Treat individuals consistently and fairly, regardless of age, sex, gender, disability, race and sexual orientation, and;
11. Protect individual rights under Data Protection and Human Rights Legislation

3 Billing procedures

The Council will send out annual demand notices (Bills) in advance of the 1st of April each year. The bill will tell the taxpayer how much they have to pay, what their instalments are and the date they are due.

Council Tax and Business Rates payers are entitled to pay their annual charges over 10 equal instalments. In Eastbourne we collect the 10 instalments on the 1st, 5th or 7th day of each month from April to January of the following year. Council Tax Direct Debit customers are offered a range of payment dates (1st, 7th, 15th or 25th).

The taxpayer can request, in writing, to pay over 12 months. The number of instalments reduces during the course of the year

The Council has discretion to offer alternatives to the statutory 10 monthly instalments. Acceptable alternatives schemes are:

- Twice-yearly payments (April and October)
- Annual payments (April)
- Weekly payments (April to January)
- Fortnightly payments (April to January)

The Council will produce clear and understandable documentation. Bills and Recovery Notices will show clearly how much to pay and when the payments are due.

4 Payment methods

The Council offer a variety of payment methods to suit individual taxpayer's circumstances. The following methods of payment are available to Council Tax payers:

- Direct Debit
- On-Line with a debit or credit card
(www.eastbourne.gov.uk/council/tax/payments)
- Via an automated telephone service
(Tel: 01323 649358)
- Standing Order and Internet Banking

- Via a payment card at a Post Office or certain Retail outlets
- By cash, using our automated kiosk at 1 Grove Road
- By cheque or postal order – we will not send a receipt.
- By deduction from salary or allowance for Council employees and Council members

Business Rate payers can use any of the following:

- Direct Debit
- On-Line with a debit or credit card
(www.eastbourne.gov.uk/business/rates/how-can-i-pay)
- Via an automated telephone service
(Tel: 01323 649358)
- Standing Order and Internet Banking
- By cash using our automated kiosk at 1 Grove Road
- By cheque or postal order – a receipt will not be issued.

The Council promotes Direct Debit as its preferred method of payment. Paying by direct debit can be the most convenient method for many taxpayers. It is reliable, easy to set up and cancel, and is backed by a refund guarantee. The Council will offer additional payment dates to taxpayers who choose to pay by direct debit.

5 Collection Procedures

The Council are under a statutory duty to collect Council Tax and Business Rates. The majority of taxpayers pay their instalments on-time. For those that don't, there is statutory recovery process the Council will adhere to.

Recovery practices must be efficient and economic. Delays in collection or non-recovery of debts leads to high administrative costs and results in lower resources available for other Council services with higher charges being passed on to other residents.

1st Reminder

The Council will issue a reminder if an instalment is not paid within seven days of the date it is due. For Business Rates this is known as a Further Notice. If payment of the amount due is made within seven days, the taxpayer retains the right to pay by instalments. If not, the full amount payable for the year becomes due and the Council will issue a summons for the taxpayer to appear at the Magistrates Court.

2nd reminder

For Council Tax if an instalment is not paid within seven days of the date it is due for a second time the Council will issue a reminder. If payment of the amount due is made within seven days the taxpayer retains the right to pay by instalments. If not, the full amount payable for the year becomes due and the Council will issue a summons for the taxpayer to appear at the Magistrates court. For Business Rates this Notice is referred to as a reminder notice.

Final Notice a third instalment is missed the full amount becomes due and the right to pay by instalments is lost. The Council will send the taxpayer a final notice demanding the full amount due. For Business rates payers there is no requirement to issue a 3rd reminder notice/final notice.

Summons

If a taxpayer has lost the right to pay by instalments and the full debt is not paid a summons will be issued for the taxpayer to appear before the Magistrates Court.

If the debt plus costs is paid prior to the court date the summons will be withdrawn.

The Council will, at all times, try to help customers who are experiencing difficulties in paying. Wherever possible we will try to distinguish between those who cannot pay with those who will not pay, or are deliberately withholding, delaying or giving false information in respect of paying Council Tax.

The Council will provide details of where taxpayers can go for help and advice, for example the Citizens Advice Bureau.

The council will hold summons surgeries at 1 Grove Road prior to the Magistrates Hearing.

6 Enforcement Procedures

If a taxpayer has lost the right to pay by instalments and the full debt is not paid within 7 days the Council will seek to gain a liability order from the Magistrates Court for the amount of Council Tax outstanding plus costs.

If the Magistrates grant a liability order this gives the Council the power to collect the debt by the following methods:

- Attachment of earnings
- Attachment of certain state benefits
- Attachment of councillor's allowances
- Distress
- Charging Order
- Bankruptcy
- Committal

The Council will only use Distress (ie instructing bailiffs) when other available options are exhausted.

The Council will only look to committal as a remedy as a last resort.

In the case of a Business Rates debt the options open to the Council are:

- Distress
- Insolvency
- Committal
- Charging Order

7 Write-Off

There will be occasions when the only option open is to write-off the debt. This may occur when:

- The debtor is deceased and there are no assets in the estate to pay the debt
- The debt is so small it is uneconomical to pursue
- The debtor is deceased and there are insufficient funds in the estate
- The debtor has left the property and the Council is unable to trace them
- There are humanitarian grounds on which to make the decision not to pursue the debt
- The company (in the case of Business Rates) had gone into administration and there is no possibility of recovering the debt
- The debtor is subject to Committal proceedings and the Court have considered reasons for non-payment and ordered the Council to write off the debt

Powers to write-off debt are delegated to the Revenues & Benefits Manager, Revenues Manager and Senior Recovery Officer.

8 Court Costs

The Council are allowed to charge costs reasonably incurred in obtaining a liability order. There is no level of cost set by legislation and it is up to the Council to decide what the cost should be.

The Senior Head of Community, in consultation with the Portfolio holder for Community Services, will, by delegated powers, set the level of the costs.

Agreement to the level of costs will be sought from the Magistrates Court.

Consideration to waiving Summons costs may be given in the following circumstances:

- If payment can be proven/shown to have crossed with the issue of the summons
 - Where the Summons was issued incorrectly
 - Where the customer has written to us with a relevant enquiry or complaint and we have not yet dealt with the matter
 - In some limited instances where we will use our discretion to waive costs in full or in part. However, this would only be applicable in cases of extreme hardship or where the particular circumstances of the customer would make it inequitable or wrong not to do so.
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Equality and Fairness Analysis

Scoping and findings report – Council Tax and Business Rates Collection Policy

Officer responsible for equality and fairness analysis	Bill McCafferty Revenues and Benefits Manager	
Officer responsible for policy development	Bill McCafferty Revenues and Benefits Manager	
Policy area	Revenues and Benefits	
Service area responsible for implementing the policy	Revenues	
Originator (if not the Council)		
Is the policy proposed (new) or existing?	New	
Is it an EBC policy or a partnership initiative?	EBC	
Key people involved in the policy development and its implementation	Ian Fitzpatrick, Senior Head of Community Bill McCafferty, Revenues & Benefits Manager Nick Ducatel, Revenues Manager	
Decision making bodies the policy will be referred to	Cabinet – December 2013	
Snr/Head of Service	Ian Fitzpatrick	
Date of Equality and Fairness		

Steering group	
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Policy = the full range of our policies, practices, activities, projects, procurement and decisions, whether it is formally written down or whether it is informal custom and practice. This includes all existing policies and any new policies under development.

Title of policy	Council Tax & Business Rates collection and recovery policy
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What is the purpose of the policy and why is it needed?

The policy is intended to set the framework within which, along with the statutory provisions, the Council will seek to collect the taxes and to recover any unpaid Council Tax and Business Rates.

In what context will it operate and who is it intended to benefit?

Council Tax and Business rates are the two local taxes that the Council is under a statutory duty to collect. Council Tax is a source of income which helps to meet the costs of running council, county council, police and fire services.

Business rates are paid to the government who then re-distribute them amongst councils.

In 2013/14 the total Council Tax due to be collected is c£52m on c47,000 properties. Of the Council Tax collected, the Council retain 14%, with approximately 72% going to the County Council, 5% to the Fire Service and 9% to the Police.

In 2013/14 there is c£34m of Business Rates to collect from c2,800 business properties.

The policy is intended to ensure that the Council collect taxes in a fair and equitable manner, in accordance with the legislation and with regard to those tax payers who pay their taxes on time.

What are the expected outcomes of the policy?

The aims of the policy are:

1. To bill customers accurately and in a timely manner
2. To help customers get the discounts and exemptions they are entitled to

3. To comply with relevant legislation
4. To take into account guidance and best practice
5. To collect taxes due in a fair and efficient manner
6. To provide payment methods that are convenient to the taxpayer
7. To discharge the Council's duty in relation to the recovery of Council Tax and Business Rates
8. To take recovery action taking into account individual's circumstances as far as practicable
9. Protect individual rights under Data Protection and Human Rights Legislation
10. To treat individuals consistently and fairly regardless of age, sex, gender, disability, race and sexual orientation,
11. To make use of distress or committal only as a last resort

<p>Which protected groups will it affect the most?</p> <p>Considering who the policy is intending to benefit and what the expected outcomes are, assess each characteristic and indicate whether the policy has 'M' more or 'L' less relevance and circle those that apply.</p>	Age	M	L
	Disability	M	L
	Gender reassignment	M	L
	Marriage and civil partnership	M	L
	Maternity and pregnancy	M	L
	Race	M	L
	Religion or beliefs	M	L
	Sex	M	L
	Sexual orientation	M	L

Which parts of the PSED¹ is it relevant to? Use the same assessment as for protected groups.	1. Eliminate discrimination, harassment and victimisation	M	L
	2. Advance equality of opportunity	M	L
	3. Foster good relations	M	L

Equality Information

List all the sources of information you have gathered and will use to evaluate the effectiveness, or potential effectiveness, of the policy. Include evidence gathered from engagement.

Age and gender

Population by gender and broad age groups in 2011

This dataset shows the resident population by gender and broad age groups from the 2011 Census.

Age		All people	Percent aged 0-14	Percent aged 15-29	Percent aged 30-44	Percent aged 45-64	Percent aged 65+
Gender	Geography						
All people	England and Wales	56,075,912	17.6	19.9	20.5	25.4	16.4
	South East	8,634,750	17.8	18.6	20.4	26.1	17.2
	East Sussex	526,671	16.1	15.9	17.2	28.0	22.7
	Eastbourne	99,412	15.7	18.5	18.3	25.1	22.4
Males	England and Wales	27,573,376	18.4	20.5	20.8	25.6	14.9
	South East	4,239,298	18.6	19.2	20.5	26.3	15.5
	East Sussex	253,764	17.2	16.8	17.3	28.1	20.5
	Eastbourne	47,559	16.9	19.6	18.7	25.1	19.7
Females	England and Wales	28,502,536	16.9	19.4	20.3	25.3	18.0
	South East	4,395,452	17.0	18.0	20.3	25.9	18.8
	East Sussex	272,907	15.1	15.0	17.2	27.9	24.8

¹ Public Sector Equality Duty – for further information refer to the guide on same

Source: 2011 Census, Office for National Statistics

Ethnicity, nationality and language

Population by ethnic group in 2011

This dataset shows the population by ethnic groups from the 2011 Census.

Ethnicity	All people	Percent All White	Percent All Mixed	Percent All Asian or Asian British	Percent All Black or Black British	Percent other ethnic group
Geography						
England and Wales	56,075,912	86.0	2.2	7.5	3.3	1.0
South East	8,634,750	90.7	1.9	5.2	1.6	0.6
East Sussex	526,671	96.0	1.4	1.7	0.6	0.3
Eastbourne	99,412	94.1	1.8	2.8	0.8	0.5

Religion

Population by religion in 2011

This dataset shows the percentage of the population by religion from 2011 Census.

Religions	All people	Percent Christian	Percent Buddhist	Percent Hindu	Percent Jewish	Percent Muslim	Percent Sikh	Percent other religions	Percent no religion	Percent religion not stated
Geography										
England and Wales	56,075,912	59.3	0.4	1.5	0.5	4.8	0.8	0.4	25.1	7.2
South East	8,634,750	59.8	0.5	1.1	0.2	2.3	0.6	0.5	27.7	7.4
East Sussex	526,671	59.9	0.4	0.3	0.2	0.8	0.0	0.7	29.6	8.1
Eastbourne	99,412	59.6	0.5	0.4	0.2	1.5	0.1	0.6	29.2	8.0

Source: 2011 Census, Office for National Statistics

Main household language in 2011

This dataset shows various combinations of adults and children within a household that have English as a main language.

Household language	All households	All people aged 16 and over in household have English as a main language	At least one but not all people aged 16 and over in household have English as a main language	No people aged 16 and over in household but at least one person aged 3 to 15 has English as a main language	No people in household have English as a main language
Geography					
England and Wales	23,366,044	21,313,812	868,431	181,729	1,002,072
South East	3,555,463	3,312,400	114,631	19,423	109,009
East Sussex	231,905	222,351	4,692	672	4,190
Eastbourne	45,012	41,736	1,333	237	1,706

Source: 2011 Census. Office for National Statistics

Marital and civil partnership status

Population by marital and civil partnership status in 2011

This dataset shows the number of people aged 16 and over and the percentage by marital status from 2011 Census.

Marital status	All people aged 16 and over	Percent single	Percent married	Percent in a registered same-sex civil partnership	Percent separated	Percent divorced	Percent widowed
Geography							
England and Wales	45,496,780	34.6	46.6	0.2	2.6	9.0	7.0
South East	6,992,666	31.9	49.3	0.2	2.5	9.1	6.9
East Sussex	435,515	29.1	48.4	0.3	2.7	10.7	8.7
Eastbourne	82,691	33.3	42.8	0.4	3.0	11.5	9.1

Source: 2011 Census, Office for National Statistics

Limiting long-term illness in 2011

This dataset shows the percentage of people that have a limiting long-term illness or disability from 2011 Census.

Type	All people	Percent people with long-term health problem or disability	Percent day-to-day activities limited a little	Percent day-to-day activities limited a lot	Percent people without long-term health problem or disability
Geography					
England and Wales	56,075,912	17.9	9.4	8.5	82.1
South East	8,634,750	15.7	8.8	6.9	84.3
East Sussex	526,671	20.3	11.2	9.2	79.7
Eastbourne	99,412	21.0	11.3	9.7	79.0

Source: 2011 Census, Office for National Statistics

Poverty

Households in poverty in 2013

This dataset shows the number and percentage of households living in poverty. A household in poverty is one whose income is below 60% of the GB median household income, which in 2013 was £16,814.

Measure	Total number of households	Number of households below 60% of GB median	Percentage of households below 60% of GB median
Geography			
Great Britain	26,323,250	7,720,637	29.3
South East	3,636,820	897,564	24.7
East Sussex	236,516	65,181	27.6
Eastbourne	45,981	13,345	29.0

Source: CACI

Are there gaps in this information and if so, what are these?

For instance, do you have information that is sufficient for the purpose of evaluating the effectiveness of the policy against all protected characteristics?

As we do not record equalities data on taxpayers it is impossible to evaluate the effectiveness.

What steps did you take, or are you intending to take, to fill these gaps?

Depending on the purpose of the policy it may prove useful to engage with service users, employees, equality/involvement groups/organisations and other interested parties etc.

We will monitor any complaints received to identify trends that may suggest inequality in the way people are dealt with.

What does all the information gathered tell you about the policy?

I.e. does the policy miss opportunities to advance equality and foster good relations?

Based on your evidence and engagement is there a need to balance conflicting views and how will you do this?

You will need to find an appropriate balance for these groups and the policy in question.

No.

Is there a need to counter resentment or address inaccurate perceptions, if so what will you do?

This is more likely to arise in regard to policies that justifiably benefit certain groups over others and so give the impression of 'favourable treatment'.

The policy does not benefit any group over any other group.

Findings of your analysis

Having gathered in all the evidence and considered the potential or actual effect of the policy on equality, you should now be in a position to make an informed judgement about what should be done with the policy. There are four main steps to take:

1. No major change – the policy is robust and evidence shows no potential for discrimination and all opportunities to advice equality and foster good relations between groups has been taken;
2. Adjust the policy - some steps need to be taken to remove barriers in the policy or to better advance equality;
3. Continue the policy – you will adopt the policy despite any adverse effects or missed opportunities because you are satisfied that it does not unlawfully discriminate – you will need to document what the justification is for continuing the policy, and how you reached this decision;
4. Stop and remove the policy – there are adverse effects that are not justified and cannot be reduced.

Irrespective of the step you recommend you are required to provide documentation in support of your decision and the reasons why you made it together with all supporting equality information used.

Please type 'recommended course of action' against the desired step below.

No major change	
Adjust the policy	
Continue the policy	
Stop and remove the policy	

Proposed action plan in regard to policy implementation

Quality checking: What was the outcome of the Corporate Equality and Fairness Planning Group?	
How will you implement any recommendations the group made?	

<p>How will the policy be monitored once implemented, and who will do this?</p> <p>Consider how you will determine whether or not the policy is having its desired effects i.e. what type of information is needed and how often will it be gathered?</p>	
<p>Who will analyse the monitoring at its review stages?</p>	<p>Revenues and Benefits Manager.</p>
<p>What could trigger an early revision?</p>	<p>Changes in legislation.</p>
<p>How will you involve key service users/other parties in the review process?</p>	<p>Through liaison meetings with the voluntary sector.</p>
<p>How will you publish the results of any reviews?</p>	

For completion by the Equality and Fairness Steering Group:

<p>Results of group discussion and recommended course of action:</p>	
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EASTBOURNE BOROUGH COUNCIL

Annual Audit Letter 2012/13

23 October 2013



EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders and members of the public.

It is the responsibility of the Council to publish this on the Council's website.

Responsibilities of auditors and the council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Scope of the audit

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's Statement of Accounts
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, Grants claims and certification work, and whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter.

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

Key findings

	STATEMENT OF ACCOUNTS
1	<p>We issued an unqualified true and fair opinion on the financial statements on 27 September 2013.</p> <p>A small number of unadjusted audit differences were not corrected in the final published financial statements. These did not affect the reported deficit for the year but would reduce net assets and reserves by £71,000.</p> <p>We noted a deficiency in internal controls in respect of theatre tickets reconciliations that management has agreed to review and address.</p>
	USE OF RESOURCES
2	<p>We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We issued an unqualified value for money conclusion on 27 September 2013.</p>
	OTHER MATTERS
3	<p>We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).</p> <p>The Council's WGA is below the threshold for full assurance review and we completed a shortform assurance review. We reported that, following adjustments to the opening gross cost and depreciation in the financial statements, the information on property, plant and equipment reported in the WGA was not consistent with the audited financial statements. However, the opening net book value was included correctly.</p> <p>Our work on the audit of the grant claims and other returns for 2012/13 is in progress and we will report the findings from this work in December 2013.</p>

STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 27 September 2013.

Financial statements

The following presentational misstatements were identified and corrected during the audit:

- related party transactions with voluntary organisations updated for actual payments
- group income statement was amended for the adjustment to align accounting policies for leaseholder improvements
- reclassification of capital adjustments between the revaluation reserve and Capital Adjustment Account
- removal and netting off of valuation adjustments to property, plant and equipment in the prior year and the current year
- update earmarked reserves note to reflect the transfer for the difference between the MRA and depreciation charge of £298,000
- additional information and disclosures associated with the group accounts
- revision to the operating lease income note by relevant year of income
- additional risk information and analysis for financial instruments.

Three misstatements were identified that were not corrected in the final published financial statements:

- £115,000 accumulated absences earned but not yet taken have been included as a provision but should be classified as a creditor in the balance sheet
- the final valuation of heritage assets (various paintings and art) was £35,000 higher than the initial valuation reports used in preparing the financial statements
- the Goffs land and buildings asset has been revalued to £606,000 based on the initial sealed bids but this has not proceeded as the updated valuation at £500,000 has not been reflected in the financial statements.

The net effect of adjusting for these differences would be to decrease net assets and reserves by £71,000. Management considered that these uncorrected misstatements did not have a material impact on the financial statements, either individually or in aggregate, and the Audit and Governance Committee accepted the assertion that the misstatements need not be corrected for this reason.

There is no impact on the reported deficit for the year. We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Internal controls

We believe that there is a significant deficiency in internal controls in respect of Theatre cash and bank reconciliations ('databox reconciliations') as the reconciliations are not completed on a monthly basis and variances are not being investigated.

We are aware that the reconciliations have been completed retrospectively however good practice would be to ensure that reconciliations are completed on a monthly basis and that any variances are investigated in a timely manner.

Other observations

We noted that the Council's policy for depreciation and amortisation is that no amounts are charged in the year of acquisition and the final charge is included for the full year in the year of disposal. We have suggested that depreciation and amortisation should commence in the month following acquisition (or at least quarterly).

Land and buildings are required to be carried at fair value and guidance currently allows five-yearly valuations as a minimum. The guidance has been updated for 2013/14 and there is an expectation that management will obtain more frequent valuations, either as a desktop review or full valuation, in future years.

We note that, going forward, the Council intends to obtain valuations for works of art held in the Towner collection at 10 year intervals. In our view, for art values in excess of £11 million, management should consider more frequent valuations or apply interim desktop valuations based on recognised relevant indices.

We noted from our review of records obtained from the Land Registry that a number of properties and land that were transferred to East Sussex County Council many years ago are still recorded in the name of Eastbourne Borough Council. We have suggested that management obtain a full list of assets held, compare this to the official records held by the Land Registry and resolve any inconsistencies.

USE OF RESOURCES

2

CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We issued an unqualified value for money conclusion on 27 September 2013.

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Financial resilience

The Council maintains healthy levels of earmarked reserves and balances. Members have agreed a policy to make use of these reserves to fund investment and non-recurring expenditure rather than using these to support on going expenditure.

The revised 2012/13 budget included planned use of £856,000 of general reserves and reduced use of the General Fund to £502,000. The outturn was generally in line with the revised budget, with additional costs for redundancies and theatres offset by additional income from benefit subsidy, recovered benefit overpayments and additional grant funding.

As at 31 March 2013, the General Fund balance was £3.9 million which provides significant headroom over the minimum level of £2 million recommended by Chief Finance Officer.

The Medium Term Financial Strategy (MTFS) was updated during the year to cover the four year period to 2016/17. This has identified a base funding gap of £3.6 million with planned use of £1 million of the General Fund for non-recurring expenditure. This is addressed by efficiency savings of £2.2 million and procurement savings of £1.4 million.

The MTFS has not budgeted for any New Homes Bonus funding and other one off grants that are likely to be received (including a grant for the retention of weekly household waste collection of £2.6 million), providing some flexibility over any further draw down of reserves and opportunities for further capital investment.

Clear leadership has been shown on financial planning matters through the work of the Cabinet and the Corporate Management Team to prepare for, and then respond to, the Government's Comprehensive Spending Reviews and known financial settlements. It is important that this is continued as the Council faces the challenge of delivering the change required to remain sustainable into the medium term.

Challenging economy - efficiency - effectiveness

The Council continues to challenge the resource allocation in the next round of budget and medium term financial planning. Members have a clear understanding of the Council's financial challenges and are being supportive of officers in the budgetary process.

Key focus areas in the medium term continue to include:

- ensuring that financial benefits continue to realised from the work being done on Sustainable Service Delivery Strategy
- ensuring that financial benefits are realised from the work being done on rationalising and renegotiating external contracts through the work on procurement
- monitoring both cost and performance to demonstrate to members that despite significant reductions in costs, services continue to deliver services in line with corporate priorities to demonstrate the achievement of value for money.

Performance towards key projects underpinning achievement of the Council's four cross cutting themes (a Prosperous Economy; Quality Environment; Thriving Communities and Sustainable Performance) is regularly monitored by the Cabinet through the quarterly Corporate Performance Report. For the year to 31 March 2013, 28 out of the Council's 39 key performance indicators achieved their targets.

The Council continues to challenge the way services are delivered in response to addressing the medium term financial position.

OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

Annual Governance Statement

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

Whole of Government Accounts

The Council’s WGA is below the threshold for full assurance review and we completed a shortform assurance review. We reported that, following adjustments to the opening gross cost and depreciation in the financial statements, the information on property, plant and equipment reported in the WGA was not consistent with the audited financial statements. However, the opening net book value was included correctly.

Grant claims and certification

We presented our most recent Grant claims and returns certification report in February 2013, which included the results of the audited returns for 2011/12. We certified four returns amounting to over £88 million. Our report noted that one return, Housing and council tax benefit subsidy, was qualified in respect of classification of overpayments by type, and the remaining three were submitted without qualification.

Two of the returns required amendment including a reduction of £7,223 for the Housing and council tax benefit subsidy for rent thresholds for non-HRA tenancies, and a technical amendment to shared ownership dwellings in the Housing subsidy return that did not have any impact on the overall amount of subsidy receivable.

To date, we have certified two returns for 2012/13. Our work on the audit of the grant claims and other returns for 2012/13 is in progress and we will report the findings from this work in December 2013.

APPENDIX

Reports issued

We issued the following reports in respect of the 2012/13 financial year.

REPORT	DATE
Planning letter	December 2012
Grant claims and returns certification 2011/12	February 2013
Audit Plan	March 2013
Final Audit Report	September 2013
Annual Audit Letter	October 2013

Fees update

We reported our original fee proposals in our Audit Plan issued in March 2013. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Scale fee	88,920	88,920
Certification work fee	21,900	<i>(note 1 1)</i> 22,350
Total fees for audit services	110,820	110,820
Non audit fees	-	<i>(note 1 2)</i> 2,250

Certification work fees ¹

The certification fees have been increased by £450 to incorporate fees for the annual final report of the findings of the certification work.

Work on the audit of the grant claims and other returns is in progress and we will report the findings from this work and the final fees separately.

Non audit services ²

The Council has an annual subscription with BDO to provide general support for PAYE/VAT queries and issues.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Agenda Item 11

Body:	AUDIT AND GOVERNANCE COMMITTEE
Date:	4 TH DECEMBER 2013
Subject:	Internal Audit Report to 30 th September 2013
Report Of:	Internal Audit Manager
Ward(s)	All
Purpose	To provide a summary of the activities of Internal Audit for the second quarter of the financial year 2013/14.
Recommendation(s):	That the information in this report be noted and members identify any further information requirement and timescales.
Contact:	Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@eastbourne.gov.uk

1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2013/14 was agreed by the Audit and Governance Committee in March 2013.

2.0 Review of work in the second quarter of the financial year 2013/14.

- 2.1 A list of all the audit reports issued in final from 1st April to 30th September 2013 is as follows:

Theatres Reconciliations (Annual 2012/13)	Performing Inadequately
Treasury Management (Annual 2012/13)	Performing Excellently
Council Tax (Annual 2012/13)	Performing Excellently
Information Governance – Records Management	Performing Inadequately
Debtors (Annual 2012/13)	Performing Excellently
Benefits (Annual 2012/13)	Performing Well
IT (Annual 2012/13)	Performing Excellently
Payroll (Annual 2012/13)	Performing Excellently
Project Management Controls	Performing Adequately
Cemeteries and Crematorium	Performing Excellently
Cafi Purchasing	Performing Excellently
Cafi Creditors	Performing Well
Creditors (Annual 2012/13)	Performing Well

Catering	Performing Inadequately
Repairs and Renewals (EHL)	Performing Excellently
Safeguarding	Performing Excellently
Community Grants	Performing Well
Destination Management System	Performing Excellently
Land Charges and Searches	Performing Well

Levels of Assurance - Key

Performing inadequately	Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk.
Performing adequately	Some important weaknesses. Key controls need to be improved. – Medium to high risk.
Performing well	Important strengths but some areas for improvement. – Medium to low risk.
Performing excellently	Major strengths. Minor or no recommendations. A good example of internal control. – Low risk.

- 2.2 During this quarter one review has been issued with an assurance level of performing inadequately. The review was of the Catering function which had been taken back in-house. Issues raised included a lack of written procedures, lack of proper stock takes etc. (A fuller list is given in Appendix B)
- 2.3 Appendix A shows the work carried out against the annual plan to the end of June 2013. The following comments explain the main points to be noted from the table:
- Annual audits for BDO – The number of days taken to carry out the work currently refers to work which relates to the last financial year but which was carried out in this year.
 - A review of Void Management had been requested and was included in the annual audit plan. However the Senior Head of Community, in discussion with Eastbourne Homes Ltd, has agreed that this review does not now need to be carried out.
 - The review of Land Charges and Searches exceeded the time allocated in the plan. This was due to both the time allocated being inadequate and issues with the level of access given to the auditor to the necessary software to adequately audit the work.
- 2.4 Appendix B is the list of all reports issued in final during the year which were given an assurance level below “Performing Excellently”, with any issues highlighted in the reviews which informed the assurance level given.
- 2.5 Appendix C shows the outstanding high and medium priority recommendations from audits and the reasons why they have not been implemented along with the month when the next follow up is due.
- 2.6 Where the column “priority” in Appendix C shows “High” the outstanding recommendations, and client comments from the report, have been listed at Appendix D. It should be noted that the recommendations listed were

outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.

2.7 Appendix D was reviewed by CMT and comments from Heads of Service have been included in the final column.

3.0 Frauds over £10k

3.1 It is a requirement that frauds over £10k are reported to our external auditors. Usually such frauds are only found by the Benefit Fraud section however a request is now also sent quarterly to Eastbourne Homes Ltd to ask them to confirm whether they have been aware of any frauds over £10k within that quarter.

3.2 The Benefit Fraud section now report these frauds to Internal Audit on a quarterly basis and these are passed on to the external auditors.

3.3 One fraud over £10k were reported in the second quarter of 2013/14.

Overpayments over £10,000 between 01/04/13 and 30/09/13					
Suspected Fraud	Proven Fraud	Source of Info	Completed	Progress & Outcome	Over payment
LTAHW	Living Together	HBM S	11-Jul-13	Prosecution	£41,030.24

4.0 Consultation

4.1 Respective Service Managers and Heads of Service as appropriate.

5.0 Resource Implications

5.1 Financial – Delivered within the approved budget for Internal Audit

5.2 Staffing – None directly as a result of this report.

6.0 Other Implications

6.1 None

7.0 Summary of Options

7.1 None

8.0 Recommendation

8.1 That the information in this report be noted and members identify any further information requirement and timescales.

Jackie Humphrey
Internal Audit Manager

Background Papers:

The Background Papers used in compiling this report were as follows:

None

			Planned days	Actual days	Reason for Variance
CORE ANNUAL AUDITS	Benefits	Governance	10	3.3	12/13 work completed this year
	Cash and Bank	Governance	25		
	Council Tax	Governance	10	0.6	12/13 work completed this year
	Creditors	Governance	15	1.4	12/13 work completed this year
	Debtors	Governance	15	0.3	12/13 work completed this year
	Housing Rents	Governance	15	8.2	12/13 work completed this year
	Main Accounting	Governance	10		
	NNDR	Governance	10		
	Payroll	Governance	10	3.7	12/13 work completed this year
	Treasury Management	Governance	10	0.3	12/13 work completed this year
	IT	Governance	4	3.6	12/13 work completed this year
	Theatres Reconciliation	Governance	5	0.1	12/13 work completed this year
	Claims work		75	70.1	

			25	8.8	Extra piece of work requested and completion of audits started in the previous year
	Contingency				
	NFI		20	2.3	
	Special Investigations/advice		40	20.3	
	Follow ups re audits carried out in previous year		30	12.7	
	Consultancy		25	0.1	

HIGH	Catering	Review	20	19.6	Completed
	Leaseholders Recharges (EHL)	Review	10	7.5	Interim draft report issued
	Repairs and Renewals (EHL follow up)	Review	10	2.6	Completed
	Void Management	Review	10	2.3	EHL/Senior Head of Community agreed this would not be carried out
	Tenancy Management	Review	10	1.1	

REQUESTS	Safeguarding	Review	5	6.1	Completed
	Back up and Storage	Review	5	0.1	

			Planned days	Actual days	Reason for Variance
MEDIUM RISK REVIEWS	Business Continuity	Review	15	0.1	
	Leasing and Licensing	Review	15	0	<i>Requested to postpone to next financial year</i>
	Planning System	Computer	10	0.7	
	Corporate Equality	Review	10	12.6	
	Human Resources	Review	15	7.4	
	Corporate Complaints	Review	10	10.9	
	Events and Attractions	Review	15		
	Civica Icon and KPR	Computer/Review	15	12.1	
	Community Enforcement	Review	10	5.6	
	Homelessness/Temporary Accommodation	Review	10	0.1	
	Community Grants	Review	10	11.5	Completed
	Destination Management System	Computer	5	5.4	Completed
	Land Charges and Searches	Review	5	12.9	Completed
	Parks and Gardens	Review	10	3.6	
	Cemeteries and Crematorium	Review	10	12.3	Completed
GIS and LLPG	Computer	5	0.5		

APPENDIX B

Reasons for original assurance levels given (below Excellent)

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED
Theatres Reconciliations	Performing Inadequately	<ul style="list-style-type: none"> • Reconciliations not carried out on a monthly basis. • Variances required investigating. • No evidence retained of checks being made.
Information Governance – Records Management	Performing Inadequately	<ul style="list-style-type: none"> • General lack of awareness and understanding, especially that digital documents must be treated in the same way as hard copies. • Retention and Disposal Schedule not being followed. • Policies and guidance only in draft. • Retention and Disposal Schedule in need of review. • No disposal dates noted on documents – especially in W2. • No documented filing or naming conventions.
Housing and C. Tax Benefits	Performing Well	<ul style="list-style-type: none"> • Claims not reviewed on a periodic basis due to lack of resources. • Evidence of benefit applications closed without being correctly actioned. (Two cases identified)
Project Management Controls	Performing Adequately	<ul style="list-style-type: none"> • No clarity of how to decide if a piece of work should be classed as a project and then approved. • Lack of business cases written for projects. • Project workbook (guidance) was not used for projects. • Lack of project plans. • Lack of timetables for projects • Post Implementation Reviews not being carried out and therefore “lessons learned” not recorded. • Covalent was not used to document projects.
Cafi Creditors	Performing Well	<ul style="list-style-type: none"> • Records being retained beyond the limit set in the Retention and Disposal Schedule.

N.B. The issues noted here may have been addressed since the original report was issued.

APPENDIX B**Reasons for original assurance levels given (below Excellent)**

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED
Creditors	Performing Well	<ul style="list-style-type: none">• Late completion of Goods Received Notes by departments.• Invoices being delivered to departments leading to delay in putting them onto the system for payment.• Large numbers of new creditors continue to be set up.
Catering	Performing Inadequately	<ul style="list-style-type: none">• Lack of written procedures.• Stock counts not carried out on a monthly basis.• Stock is only counted and not reconciled to expected stock levels.• Overstock of wine resulting from transfer of stock from Convex.• There appears to be a high level of write offs with regard to wastage and lack of recording and monitoring wastage.• Processes around till readings, discrepancies and monitoring of no sales etc. were lacking.
Community Grants	Performing Well	<ul style="list-style-type: none">• Some financial and other information from groups had not been supplied or chased.• Some groups regularly received funding from the Council and it is felt that consideration should be given to tendering for these services.
Land Charges and Searches	Performing Well	<ul style="list-style-type: none">• Testing revealed that 31 officers around the Council had access to the Land Charges register that allows them to make entries. A further nine officers listed on the system no longer work for the Council.

N.B. The issues noted here may have been addressed since the original report was issued.

APPENDIX C

MONITORING OF RECOMMENDATIONS AS AT END SEPTEMBER 2013

AUDIT	NUMBER OF RECS		FOLLOW UP DUE	OUTSTANDING RECS		CURRENT POSITION	NOTES RE FOLLOW UP/RECS OUTSTANDING	PRIORITY
	HIGH	MEDIUM		HIGH	MEDIUM			
Improvement Grants	0	4		0	0		ALL RECS ADDRESSED	
Housing	0	2		0	1	<i>Carried out in Oct</i>	No further follow up to be carried out as processes changing with Future Model	
Cafi Creditors	0	1		0	0	<i>Carried out in Oct</i>	ALL RECS ADDRESSED	
APP	0	1	Sep-13	-	-	Ongoing		
Use of Council Vehicles	4	5	Sep-13	1	0	Ongoing	Only rec outstanding is to inform managers of new policy - addressed in October	Medium
Towner (collection)	2	9	Sep-13	-	-	Ongoing		
Community Grants	0	3	Oct-13	-	-	Not Yet Due		
Health and Safety	0	4	Oct-13	0	1	Not Yet Due		Medium
Records Management	6	0	Oct-13	-	-	Not Yet Due		
Procurement	5	7	Nov-13	2	5	Not Yet Due	Awaiting work by leSE and information being put onto the intranet	High
Safeguarding	0	2	Nov-13	-	-	Not Yet Due		
Project Management Controls	6	3	Nov-13	6	3	Not Yet Due	Commissioned piece of work being carried out	Medium
Officers Expenses	1	4	Nov-13	0	2	Not Yet Due	Work ongoing on outstanding recommendations	Medium
Destination Management Service	0	1	Nov-13	-	-	Not Yet Due		
Land Charges and Searches	1	1	Dec-13	-	-	Not Yet Due		
Food Safety and Hygiene	1	3	Jan-14	1	2	Not Yet Due	<i>(carried out in Oct) recs listed in Appendix D</i>	High
Civil Contingencies	0	7	Jan-14	2	2	Not Yet Due	<i>(carried out in Oct) Training remains outstanding</i>	Medium
Catering	11	6	Jan-14	-	-	Not Yet Due		
IT Policies and Procedures	0	4	Feb-14	0	2	Not Yet Due	Work ongoing on outstanding recommendations	Medium

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Appendix D

OUTSTANDING HIGH RISKS

Procurement – Awaiting outcome of work by IESE

<i>RECOMMENDATION</i>	<i>RISK / PRIORITY</i>	<i>RESPONSIBLE MANAGER</i>	<i>CLIENT COMMENTS AT INITIAL REVIEW</i>	<i>Situation at Last Follow Up</i>	<i>Manager comments after CMT (not yet verified by Audit)</i>
Consideration should be given to an interim review of the Procurement Strategy to improve its relevance.	Low Six months	Strategic Projects Coordinator	INITIAL REVIEW <u>Strategic Projects Coordinator</u> It is due to undergo review in 2011 it will be updated with the organisational changes then.	FIRST FOLLOW UP <u>Strategic Projects Coordinator</u> To be completed this year. SECOND FOLLOW UP <u>Strategic Projects Coordinator</u> In this year's work. Will look at setting this up on Covalent	<i>To be completed this year.</i> <i>Parts of the IESE work programme for Jan-Mar 2014</i>
A system should be in place that informs interested parties when contracts fall due for renewal.	Medium Three months	Suggested Contracts Review Group	INITIAL REVIEW The Strategic Projects Coordinator now has responsibility for maintenance of the Contracts database. The contracts database is still in the process of being compiled and when completed it has been suggested that a copy be included onto "Insite". Contracts renewal dates will be included which should assist Legal in monitoring contract renewal dates.	FIRST FOLLOW UP The South East Business Portal does not allow reminders to be set up. Currently reminders are sent out by the Strategic Projects Co-ordinator. SECOND FOLLOW UP <u>Strategic Projects Coordinator</u> This is still carried out by the SPC. Will look at setting this up on Covalent.	<i>Still carried out by the Strategic Project Co-ordinator.</i> <i>Standing agenda item for weekly Procurement team meetings. (Contracts ending in the next 12-18 months)</i> <i>IESE work programme published in advance.</i> <i>Managers Forum IESE workshop annual reminder.</i> <i>Service and Financial Plan – section on service development should capture major procurement.</i>

Appendix D

OUTSTANDING HIGH RISKS

Procurement – Awaiting outcome of work by IESE

RECOMMENDATION	RISK / PRIORITY	RESPONSIBLE MANAGER	CLIENT COMMENTS AT INITIAL REVIEW	Situation at Last Follow Up	Manager comments after CMT (not yet verified by Audit)
Where contractors are expected to abide by any of the Council's policies, rules and guidelines, these must be sent out with the contract and not left to the contractor to request copies. Alternatively the information should be uploaded onto the website and contractors informed where these documents can be found.	Medium Three months	Procurement Group	The Strategic Projects Co-ordinator states that she is to obtain training on the use of the system for updating the internet. Once the training has been received this recommendation will be addressed. It is also intended to build a page on the intranet and fully update the web page.	<p>FIRST FOLLOW UP Training still to be undertaken.</p> <p>SECOND FOLLOW UP Links to policies etc to be put on procurement area of website when live.</p>	<p>Links to policies etc to be put onto procurement area of the website.</p> <p>IESE work programme year 2 (Jan – Dec 2014) has allowance for Information Management which includes developing the portal.</p>
Generic guidelines for the processes and procedures of managing and monitoring contracts should be written and disseminated.	Medium Three months	Procurement Group	Work is currently ongoing on writing Contract Monitoring Guidance.	<p>FIRST FOLLOW UP Still working on tender guidance.</p> <p>SECOND FOLLOW UP <u>Strategic Projects Coordinator</u> By March 2014</p>	By March 2014
A page must be set up on the intranet that gives details of corporate contracts. Procedures for the use of corporate contracts should be clarified and /or clear directions given on the intranet.	High Six months		Agreed	<p>FIRST FOLLOW UP To be put onto the intranet 3 months</p> <p>SECOND FOLLOW UP <u>Strategic Projects Coordinator</u> To be discussed with new Exchequer Manager when in post.</p>	The Strategic Projects Co-ordinator has now taken over management of the Corporate contracts. Once full information has been gathered this will be uploaded onto the intranet.

Appendix D

OUTSTANDING HIGH RISKS

Procurement – Awaiting outcome of work by IESE

RECOMMENDATION	RISK / PRIORITY	RESPONSIBLE MANAGER	CLIENT COMMENTS AT INITIAL REVIEW	Situation at Last Follow Up	Manager comments after CMT (not yet verified by Audit)
<p>Processes need to be put in place. E.g.</p> <ul style="list-style-type: none"> The payments team are clearly informed that they have the authority to insist that the corporate purchasing contracts are used. The SP & PO is tasked with regularly reporting findings to someone who can contact relevant departments and insist that these contracts are used. Other creditors are "stopped" on the system and can only be "opened" when special permission is granted by an authorised officer outside of the relevant department (to be agreed). 	<p>High Six months</p>		<p>Agreed</p>	<p>FIRST FOLLOW UP Awaiting restructure</p> <p>SECOND FOLLOW UP <u>Strategic Projects Coordinator</u> On this year's work plan. Discuss with new Exchequer Manager when in post.</p>	<p><i>IESE are carrying out a project on creditors. This will include recommendations on the control of new suppliers. This is likely to include "auto-cull", training and awareness on use of the Portal.</i></p> <p><i>Category spend analysis is being carried out by IESE to look at the possibilities of initiating contracts.</i></p> <p><i>Reminders about raising purchase orders have been sent out and training has been delivered in October.</i></p>

Appendix D

OUTSTANDING HIGH RISKS

Procurement – Awaiting outcome of work by IESE

<i>RECOMMENDATION</i>	<i>RISK / PRIORITY</i>	<i>RESPONSIBLE MANAGER</i>	<i>CLIENT COMMENTS AT INITIAL REVIEW</i>	<i>Situation at Last Follow Up</i>	<i>Manager comments after CMT (not yet verified by Audit)</i>
When the new Procurement team is set up one of their objectives should be to consider and implement procedures for the reduction of the number of new creditors being added.	Medium Six months		Agreed	<p>FIRST FOLLOW UP Awaiting restructure</p> <p>SECOND FOLLOW UP <u>Strategic Projects Coordinator</u> On this year's work plan. Discuss with new Exchequer Manager when in post.</p>	As above
Information regarding "buying solutions" and how to use the set frameworks should be put onto the intranet.	Medium Six months		Agreed	<p>FIRST FOLLOW UP Awaiting restructure</p> <p>SECOND FOLLOW UP <u>Strategic Projects Coordinator</u> New government website Government Procurement Service. Call off by named officers only. Two recently registered and looking to register more officers for backup. Information to go on Insite to encourage staff to seek agreements but all call-offs must be through the main two officers.</p>	As comments for second follow up. <i>Part of IESE year 2 (Jan – Dec 2014) as part of the scope of Information Management.</i>

Appendix D

OUTSTANDING HIGH RISK

Food Safety and Hygiene – next follow up to be carried out in January 2014

<i>RECOMMENDATION</i>	<i>RISK / PRIORITY</i>	<i>RESPONSIBLE MANAGER</i>	<i>CLIENT COMMENTS AT INITIAL REVIEW</i>	<i>Situation at Last Follow Up</i>	<i>Manager comments after CMT (not yet verified by Audit)</i>
<p>A review of Food Safety and Hygiene inspection policies and procedures must be carried out.</p>	<p>High Risk Six Months</p>	<p>Health & Environment Manager</p>	<p>The policies and procedures do not reflect current legislation or government guidance. The forms and notices contained within, in some cases, refer to out of date legislation. Two areas overlooked in the documentation are Imported Food and the National Food Hygiene Rating Scheme (NFHRS). Officers have amended their own individual paper or electronic versions, but there is not a master copy available. Officers are each using different versions of the food hygiene inspection form. These deficiencies may be challenged in court if the Council pursue a prosecution in relation to food hygiene. A copy of EBC's current Scheme of Delegation is not currently accessible and may be required in urgent cases involving an Emergency Prohibition Notice being served. It is available on EBC's website but this does not contain specific officer details.</p>	<p>Procedures not yet reviewed – priority is annual inspection programme and the team of 2 has inadequate resources at present to progress this. They will be reviewing what we currently have, drawing up a programme of what needs to be reviewed, and prioritising for amendment.</p> <p>Resources within the team are under review and a business case will be prepared to request additional resources.</p> <p>A common inspection form is now being used.</p> <p>Delegations have now been made to individual staff.</p>	<p>The focus continues to be the annual inspection programme, however some initial work has been done to assess and review the policies and procedures. There are 20 of these and work is required to update the references to legislation and include Imported Food legislation and the NFHRS. The standard of the policies and procedures is high and the exercise that is required is updating and amending, rather than re-writing. A plan will be put into place by the end of November to prioritise the work that is required, with targets and timescales.</p>

Appendix D

OUTSTANDING HIGH RISK

Food Safety and Hygiene – next follow up to be carried out in January 2014

RECOMMENDATION	RISK / PRIORITY	RESPONSIBLE MANAGER	CLIENT COMMENTS AT INITIAL REVIEW	Situation at Last Follow Up	Manager comments after CMT (not yet verified by Audit)
<p>It should be endeavoured to carry out inspections (particularly those within a medium to high risk category), within one month of the scheduled date.</p>	<p>Medium Risk Three Months</p>	<p>Health & Environment Manager</p>	<p>In recent years, category E (low risk) premises were mailed out a questionnaire to complete and returned, and this process was done in bulk once a year. Since the introduction of NFHRS, the team must inspect these premises by visit which has increased the number of inspections to be carried out. Inspections carried out prior to or post 28 days of the due date may disadvantage a business as they are not getting timely advice or their NFHRS rating, and a delay in inspection may put consumers at risk.</p>	<p>It has not been possible to complete the food inspection programme within the 1 month parameter. Scripts have not yet been written for the food service and it is these that will determine the work that will pass to other teams in the future model, for example it is anticipated that there are some tasks that the caseworkers could carry out. As of 27/09/13 there is no scheduled date for the scripts to be done, but they will follow on from Licensing which is currently in progress. At present the team are behind schedule and there are currently 271 overdue inspections outstanding as of 11/09/13</p> <p>Work is in progress with Wealden and Rother to appoint them to do 200 category "C" inspections which will assist with the backlog. We anticipate they will commence in the next month.</p>	<p>Work has commenced on the scripts and processes and completing them to enable work to be carried out in line with the Future Model is a priority for early in the New Year. Alongside this work, caseworkers have been working closely with the Specialist Advisors to support the Food function, for example assisting the Specialists with sampling, and responding to some initial queries from customers.</p> <p>As at 31/10/13, 216 inspections have been completed by the Specialist Advisors out of a total of approx 600. The number of inspections will increase each month. The total number required cannot be finalised until the year end, as businesses begin and cease trading, and when there is a new proprietor a new inspection is required.</p> <p>Arrangements have been finalised with Wealden and Rother to carry out 200 category "C" inspections, and these commenced in early November.</p>
<p>Internal monitoring records should be retained and kept for two years in line with the Framework</p>	<p>Medium Risk Six Months</p>	<p>Health & Environment Manager</p>	<p>Agreed</p>	<p>The Senior post has been deleted and the function is now managed by the Manager of Specialist Advisors and supported by the Senior Specialist Advisor. These two roles</p>	<p>The caseworkers have commenced working with the specialists to support the food function, as mentioned above.</p>

Appendix D

OUTSTANDING HIGH RISK

Food Safety and Hygiene – next follow up to be carried out in January 2014

<p>Agreement on Local Authority Food Law Enforcement.</p>				<p>incorporate line management and service delivery. While the monitoring details are explained extensively in the Food Safety Service Plan 2013 these actions are behind schedule due to the ongoing transition to the Future Model ways of working. However these will be picked up by the Senior Specialist Advisor going forward.</p>	<p>Additional resources have been allocated to enable external assistance with the completion of inspections.</p> <p>In terms of monitoring, inspection, intervention and performance targets, these are reviewed on at least a monthly basis.</p> <p>The Senior Specialist Advisor has a role in examining the computer database on a routine basis to ensure all fields operate properly and are accurately populated, and cross checking data with any paper files. Alongside this, a review will be undertaken on a quarterly basis of a sample of service requests and inspections, which will be recorded in the database.</p> <p>Recommendations for legal proceedings will be examined by the Senior Specialist Advisor, and signed off by the Manager before referral for to the legal team.</p> <p>Accompanied inspections will be conducted for all authorised officers at least once a year.</p>
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BODY: **AUDIT & GOVERNANCE COMMITTEE**
DATE: **4 December 2013**
SUBJECT: **Treasury Management Mid-year Review Report**
REPORT OF: **Chief Finance Officer**

Ward(s): All
Purpose: To provide Members with a mid year review of treasury management activity.
Contact: Janet Martin, Senior Accountant
Telephone Number 01323 415983.
Recommendations: Members are asked to note the contents of this report.

1.0 Introduction

- 1.1 Treasury Management is the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2012 was adopted by Cabinet on 6 February 2013 and requires regular reports to this committee on the Treasury Management activities undertaken.
- 1.3 This mid year report covers the following:
- An economic update for the first six months of 2013/14;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - The Council's capital expenditure (prudential indicators);
 - A review of the Council's investment portfolio for 2013/14;
 - A review of the Council's borrowing strategy for 2013/14;
 - A review of any debt rescheduling undertaken during 2013/14;
 - A review of compliance with Treasury and Prudential Limits for 2013/14.

2.0 Economic Update

2.1 The quarter ended 30 September summary:

- Indicators suggested that the economic recovery accelerated;
- Household spending growth remained robust;
- Inflation fell back towards the 2% target;
- The Bank of England introduced state-contingent forward guidance;
- 10-year gilt yields rose to 3% at their peak and the FTSE 100 fell slightly to 6460;
- The Federal Reserve decided to maintain the monthly rate of its asset purchases.

After strong growth of 0.7% in Q2, it appears that UK GDP is likely to have grown at an even faster pace in Q3. Consumer spending continued to rise and may beat the increase seen in Q2. While the 1.1% monthly rise in retail sales in July was almost entirely offset by a 0.9% fall in August, the unusually warm weather in August is likely to have had a part to play in this.

The run of good news on the labour market continued, with the ILO unemployment rate falling to 7.7% in July from 7.8% in June. Employment rose by 80,000 in the three months to July, supported by an even bigger rise in full-time employment. This meant that the ratio of full-time to part-time workers continued to rise after it troughed last summer.

Meanwhile, the cost of new credit has continued to fall, perhaps in response to the extension of the Bank of England's Funding for Lending Scheme (FLS) earlier this year. The quoted interest rate on a 5-year fixed mortgage at a 75% loan-to-value ratio was 3.34% in August, 7 basis points lower than in June and 77 basis points lower than when the FLS was introduced in July 2012.

Demand in the housing market continued to grow at a fast pace, supported by the FLS and the Government's Help to Buy scheme, which provide equity loans to credit-constrained borrowers. The RICS housing market survey reported that new buyer enquiries hit their highest level on record in August. Mortgage approvals for new house purchase rose to their highest level since February 2008 in August. Consequently, house prices continued to rise, with the Halifax and Nationwide measures recording 6.2% and 3.5% y/y rises in August, respectively.

The new Governor of the Bank of England, Mark Carney, took office in July. Alongside the August Quarterly Inflation Report, the Bank introduced its new policy of forward guidance in which the Monetary Policy Committee (MPC) pledged not to raise official interest rates, or reduce the size of the asset purchase facility, until the ILO unemployment rate falls to 7%. On the MPC's current forecasts, the unemployment rate is most likely to reach 7% in late 2016.

Meanwhile, CPI inflation fell from a 2013 peak of 2.9% in June to 2.7% in August. The fall was primarily the result of a drop in the contribution from petrol prices and a reduction in core inflation from 2.3% in June to 2% in August. CPI inflation looks likely to have edged down again in September, perhaps to about 2.5%, reflecting a further fading of both energy prices and core inflation.

Meanwhile, Eurozone business surveys suggested that the economy continued to expand in Q3, albeit at a moderate pace.

2.3 **Outlook for the next six months of 2013/14**

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

Near-term, there is some residual risk of further Quantitative Easing (QE)- if there is a dip in strong growth or if the Monetary Policy Committee takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years. This could cause shorter-dated gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below.

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

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

Downside risks currently include:

- The conflict in the UK between market expectations of how quickly unemployment will fall as opposed to the Bank of England's forecasts
- Prolonged political disagreement over the US Federal Budget and raising the debt ceiling
- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes,

especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

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

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

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

2.4 Capita's (previously Sector) Interest rate forecast is shown in the table below.

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
3m LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
6m LIBID	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%
12m LIBID	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%
5yr PWLB rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%
10yr PWLB rate	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%
25yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%
50yr PWLB rate	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%

Capita Asset Services undertook a review of its interest rate forecasts in

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

This Council has applied for and received confirmation that having complied with Prudential Indicators the PWLB Certainty Rate would be applied to future borrowing. This would reduce the interest rate by 0.2%.

3.0 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2013/14 was approved by Cabinet on 6 February 2013. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity.

There are no policy changes to the TMSS.

3.2 The Council aims to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

3.3 As outlined in Section 2 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 6 February 2013 is still fit for purpose in the current economic climate.

4.0 The Council's Capital Position (Prudential Indicators)

4.1 Prudential Indicator for Capital Expenditure

The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2013/14 Original Estimate £000	Position as at 30.9.13 £000	2013/14 Revised Estimate £000
General Fund	13,883	1,870	15,109
HRA	7,115	1,445	12,798
Total	20,998	3,315	27,907

4.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases

the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2013/14 Original Estimate £000	2013/14 Revised Estimate £000
Total spend	20,998	27,907
Financed by:		
Capital receipts	2,861	5,053
Capital grants	8,192	6,760
Capital reserves	7,046	8,445
Revenue	1,089	1,753
Total financing	19,188	22,011
Borrowing need	1,810	5,896

The increase in the revised estimated capital spend in 2013-14 is mainly due to re-profiling of previously approved schemes and the following new approved schemes:

- Supporting Housing and Economic Progress Initiative (SHEP);
- Increase of LA New Build;
- Investment Capital;
- Homelessness Change;
- 46 Upperton Gardens.

4.3 **Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary.**

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

	2013/14 Original Estimate £m	2013/14 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	21.6	22.0
CFR – housing	36.7	38.8
Total CFR	58.4	60.8
Net movement in CFR	1.8	5.0
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	56.9	
Serco Paisa Loans	1.5	
Total debt 31 March	58.4	

The revised estimate has been increased from the original forecast Capital Financing Requirement due to the increased borrowing for SHEP and WEL Investment.

4.4 **Limits to Borrowing Activity**

One key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2013/14 Original Estimate £m	Position As at 30.9.13 £m	2013/14 Revised Estimate £m
Gross borrowing	37.8	34.7	40.7
Serco Paisa Loans	1.2	1.5	1.2
Less investments	(0.5)	(5.0)	(0.5)
Net borrowing	38.5	31.2	41.7
CFR (year end position)	58.4	57.8	60.9

No difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2013/14 Original Indicator	Current Position
Borrowing	71.9	34.7
Other long term liabilities*	1.5	1.5
Total	73.4	36.2

5.0 **Investment Portfolio 2013/14**

5.1 As illustrated in the economic background section above, investment rates available in the market are at a historical low point. The average level of temporary funds available for investment purposes in the first six

months of 2013/14 was £9.48m arising from the timing of precept payments, receipt of grants and progress on the capital programme.

5.2 A full list of investments held as at 30th September 2013, during the first six months of 2013/14 is shown in appendix 1, and summarised below:

Investments	30 th September 2013	Rate of Return
Counterparty	£000	%
Foreign Banks	0	
British Banks	4,950	0.79
Building Societies	0	
Total	4,950	0.79

The above excludes £5,000 cash invested overnight on 30th September with the Council's own bankers, the Co-op.

On 10 May 2013 the Council received notification from Sector (now Capita) that the Co-op Bank was being down graded by the rating agencies to 'junk status'. Officers immediately reviewed the practice of holding excess funds over night with the Co-op bank with no limit, which is normal practice. Internally a working limit of £500,000 was set. This has had consequences on the ability to invest elsewhere due to the limited number of counterparties available that met the criteria set out in the TMSS and the limit of £4m as a maximum amount to be held with any particular bank or building society. This limit was breached on a number of occasions. These were always with banks which are part owned by the Government and considered to be very safe, only held on call and always for a minimal time.

Santander are now back on the recommended lending list and are now available as an alternative investment to avoid this problem for the future.

Apart from the breaches mentioned above, approved limits within the Annual Investment Strategy were not breached during the first six months of 2013/14.

5.3 Investment performance against bench mark was as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earnings
7 day	0.36%	0.64%	£35,350

5.4 The authority outperformed the benchmark by 0.28%. The budgeted investment return for 2013/14 is £50,000. Performance for the year to date is above target, with the outturn likely to exceed the budget slightly due to locking into higher rates for longer periods with Lloyds Bank.

5.5 Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

6.0 Borrowing

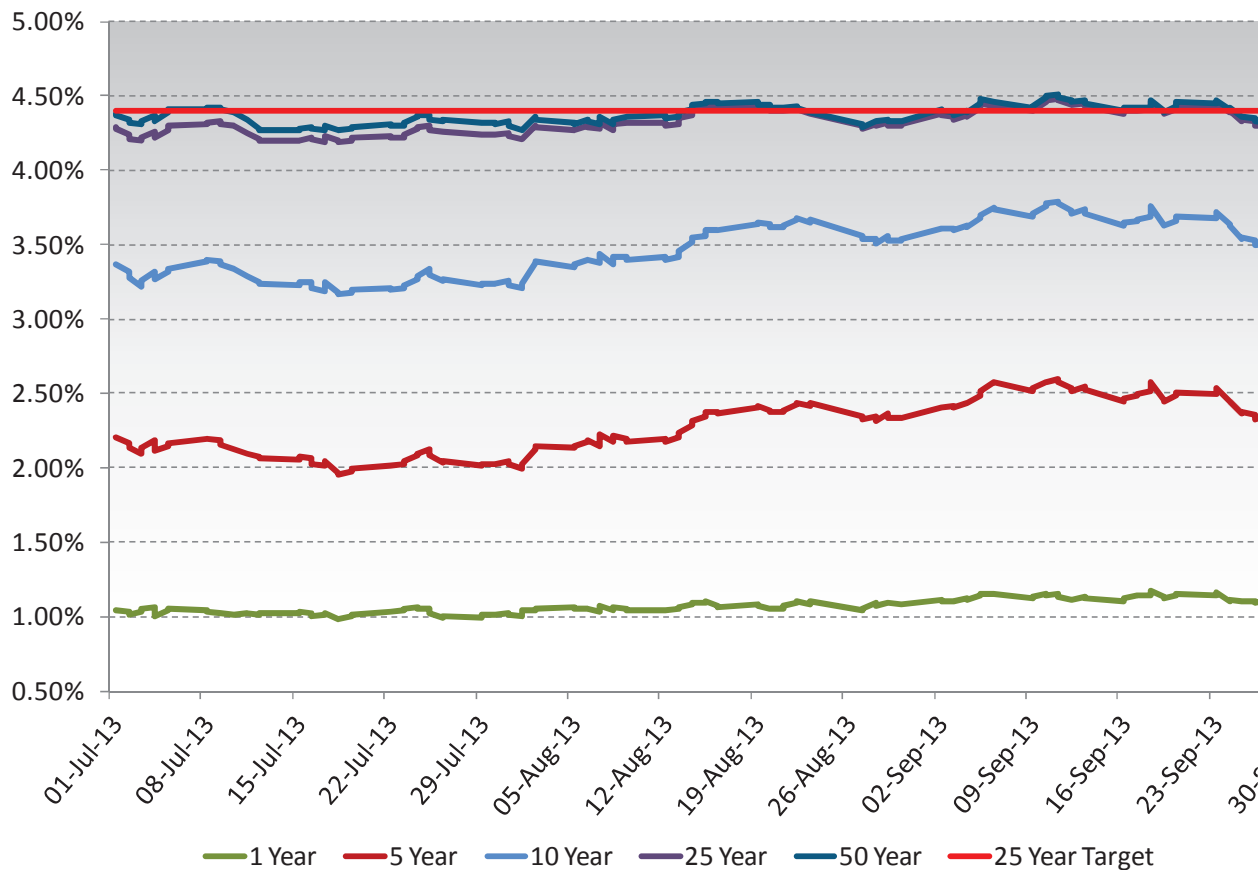
6.1 The following debt has been repaid during the first 6 months :

- £3m – 15 April 2013 (Temporary Debt)
- £1.5m – 24 September 2013 (PWLB)

No new debt has been taken during the first 6 months.

6.2 The Council's revised estimated capital financing requirement (CFR) for 2013/14 is £60.9m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table above at 5.4 shows the Council has borrowings of £34.7m and has utilised £21.6m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

6.3 The graph below shows the movement in PWLB rates for July to September 2013.



7.0 Debt Rescheduling

7.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2013/14.

8.0 Compliance with Treasury and Prudential Limits

8.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved TMSS.

8.2 During the financial year to date the Council has operated within the treasury limits (except the occasional breaches of investment limits noted in this report) and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

9.0 Consultation

9.1 None.

10.0 Resource Implications

10.1 None

Janet Martin
Senior Accountant

Background Papers:

The Background Papers used in compiling this report were as follows:

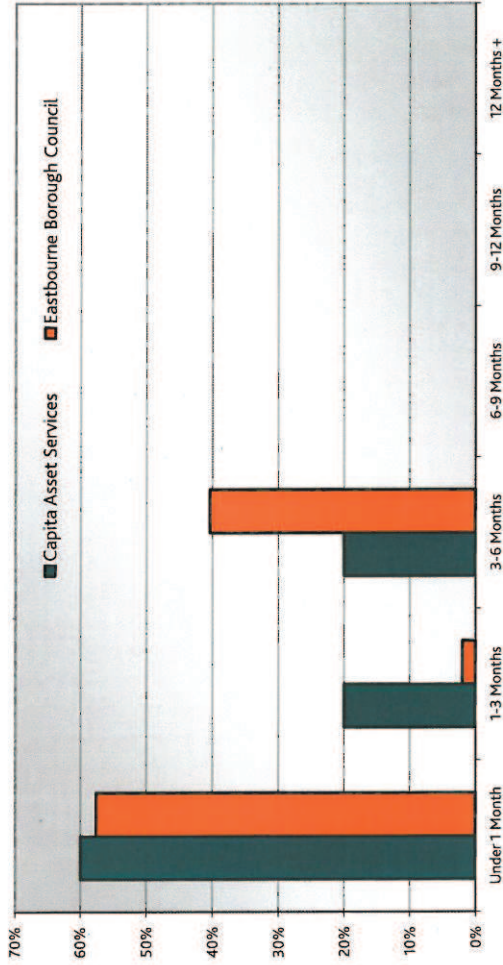
- CIPFA Treasury Management in the Public Services code of Practice (the Code)
- TMSS Policy
- Annual Investment Strategy

To inspect or obtain copies of background papers please refer to the contact officer listed above.

Current Investment List

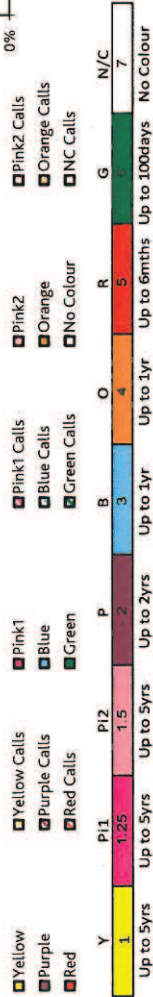
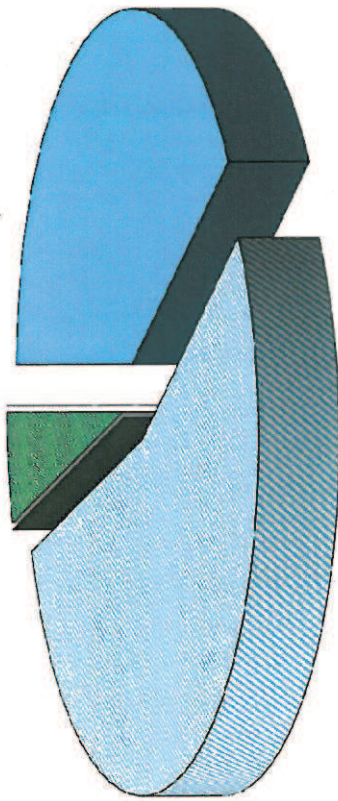
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
The Royal Bank of Scotland Plc	2,600,000	0.70%		Call	A-	0.000%
Santander UK Plc	250,000	0.40%		Call	A	0.000%
The Royal Bank of Scotland Plc	100,000	0.80%		Call90	A-	0.022%
Bank of Scotland Plc	2,000,000	0.95%	03/05/2013	03/02/2014	A	0.031%
Total Investments	£4,950,000	0.79%				0.013%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = 3.15

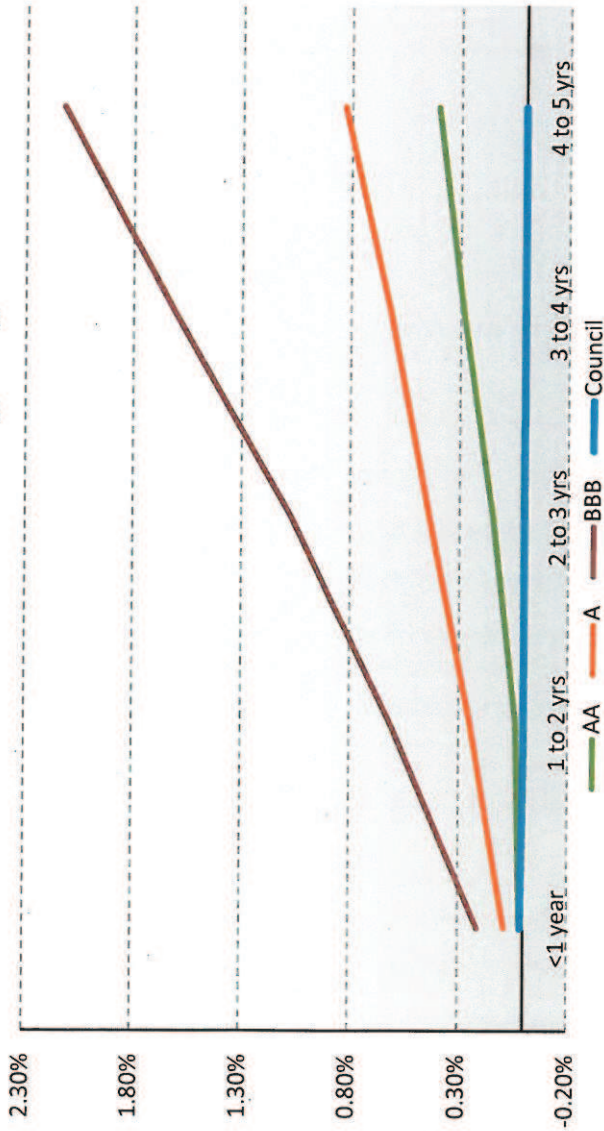
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity



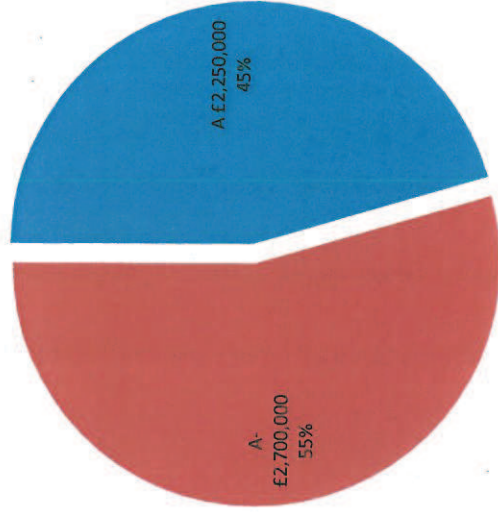
	% of Portfolio		% of Colour		Amount of		% of Call		Excluding Calls/MMFs/EMMFs	
	Amount	in Calls	in Calls	Colour in Calls	WARoR	WAM	WAM at Execution	WAM	WAM at Execution	
Yellow	£0	0.00%	0.00%	£0	0.00%	0	0	0	0	
Pink1	£0	0.00%	0.00%	£0	0.00%	0	0	0	0	
Pink2	£0	0.00%	0.00%	£0	0.00%	0	0	0	0	
Purple	£0	0.00%	0.00%	£0	0.00%	0	0	0	0	
Blue	£4,700,000	94.95%	57.45%	£2,700,000	0.81%	56	119	126	276	
Orange	£0	0.00%	0.00%	£0	0.00%	0	0	0	0	
Red	£0	0.00%	0.00%	£0	0.00%	0	0	0	0	
Green	£250,000	5.05%	100.00%	£250,000	0.40%	0	0	0	0	
No Colour	£0	0.00%	0.00%	£0	0.00%	0	0	0	0	
Total	£4,950,000	100.00%	59.60%	£2,950,000	0.79%	53	113	126	276	

Relative Investment Risk and Rating Exposure

Relative Investment Risk Vs. Rating Categories



Rating Exposure



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.017%	0.038%	0.145%	0.284%	0.401%
A	0.089%	0.249%	0.438%	0.616%	0.831%
BBB	0.212%	0.613%	1.070%	1.610%	2.126%
Council	0.013%	0.000%	0.000%	0.000%	0.000%

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
23/09/2013	1223	Lloyds Banking Group Plc	UK	Viability rating upgraded to 'bbb+' from 'bbb'.
23/09/2013	1223	Lloyds Bank Plc	UK	Viability rating upgraded to 'bbb+' from 'bbb'.
23/09/2013	1223	Nationwide Building Society	UK	Long Term rating downgraded to 'A' from 'A+', Outlook changed to Stable from Negative. Viability rating downgraded to 'A' from 'A+'.