

Notice of a public meeting of

Audit & Governance Committee

To:	Councillors Cunningham-Cross (Chair), Barnes, Brooks (Vice-Chair), Burton, Cuthbertson, Watson and Steward
Date:	Wednesday, 12 December 2012
Time:	4.30 pm
Venue:	The Guildhall, York

AGENDA

1. **Declarations of Interest**

At this point, Members are asked to declare:

- Any personal interests not included on the Register of Interests
- Any prejudicial interests or
- Any disclosable pecuniary interests

which they may have in respect of business on this agenda.

2. **Minutes** (Pages 3 - 12)

To approve and sign the minutes of the meeting of the Audit and Governance Committee held on 27 September 2012.

3. **Public Participation**

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the Committee's remit can do so. The deadline for registering is **5:00 pm on Tuesday 11 December 2012.**

4. Audit and Governance Committee Forward Plan to September 2013 (Pages 13 - 18)

This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to September 2013.

5. Key Corporate Risk Monitor Quarter 3 (Pages 19 - 32)

This report provides an update on the key corporate risks and highlights in more detail any emerging risk issues with a view to Members considering any further information they would wish to receive on these matters.

6. External Audit Fee Letter 2012/13- Mazars (Pages 33 - 38)

This paper introduces the External Audit 2012/13 fee planning letter prepared by Mazars.

7. Certification of Claims and Returns 2011/2012 - Audit Commission (Pages 39 - 48)

The purpose of this report is to allow consideration of the Certificate of Claims and Returns Report 2011/12 produced by the Audit Commission.

8. Internal Audit and Fraud Plan Progress Report (Pages 49 - 66)

This report provides an update on progress made in delivering the internal audit workplan for 2012-13 and on current counter fraud and information governance activity.

9. Audit and Governance Committee Effectiveness - Self Assessment (Pages 67 - 76)

The purpose of this report is to present the outcomes of the review of the Committee's own effectiveness.

10. Scrutiny of the Treasury Management Monitor 2 Report 2012/13 and review of Prudential Indicators (Pages 77 - 104)

This report provides an update on treasury management activity for the first six months of 2012/13.

11. Annual Financial Update for 2012/13 (Pages 105 - 108)

This report updates Members on the approach being taken for the Annual Financial Report (Statement of Accounts) for 2012/13 and also responds to the comments made in the Annual Governance Report.

12. Urgent Business

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

Name: Jayne Carr

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Email – jayne.carr@york.gov.uk

For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

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Scrutiny Committees

The purpose of all scrutiny and ad-hoc scrutiny committees appointed by the Council is to:

- Monitor the performance and effectiveness of services;
- Review existing policies and assist in the development of new ones, as necessary; and
- Monitor best value continuous service improvement plans

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City of York Council

Committee Minutes

MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	27 SEPTEMBER 2012
PRESENT	COUNCILLORS CUNNINGHAM-CROSS (CHAIR), BARNES, BROOKS (VICE-CHAIR), BURTON, WATSON, STEWARD AND RUNCIMAN (SUBSTITUTE FOR COUNCILLOR CUTHBERTSON)
APOLOGIES	COUNCILLOR CUTHBERTSON

16. DECLARATIONS OF INTEREST

At this point in the meeting Members were asked to declare any personal, prejudicial or disclosable pecuniary interests they may have in the business on the agenda. The following interests were declared:

- Councillor Barnes declared a personal interest in agenda item 5a (minute 20 refers) (Statement of Accounts 2011/12) as a trustee of York Museums Trust, which was referred to in the report.
- Councillor Brooks declared a personal interest in agenda item 5a (minute 20 refers) (Statement of Accounts 2011/12) as a member of the Teachers' Pension Fund, which was referred to in the report.

17. MINUTES

RESOLVED: That the minutes of the meeting of 25 July 2012 be approved and signed by the Chair as a correct record.

18. PUBLIC PARTICIPATION

It was reported that there were no registrations to speak at the meeting under the Council's Public Participation Scheme.

19. FORWARD PLAN

Consideration was given to a paper which presented the future plan of reports expected to be presented to the Committee during the forthcoming year to July 2013. Members noted the four amendments that had been made to the plan since it had

last been considered by the Committee, as detailed in paragraphs 3-6 of the report.

Members were asked to identify any further items they wished to add to the Forward Plan.

RESOLVED: That the Committee's Work Plan be approved.

REASON: To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.

20. FINAL STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE REPORT

(i) Final Annual Financial Report – Statement of Accounts 2011 -12

Members considered a report that presented a revised and final set of Accounts for 2011/12, which reflected the changes that had been made since the draft pre-audit accounts were presented to Audit and Governance Committee for review on 25 July 2012.

The following issues were raised:

- Clarification was sought as to whether the increased frequency of meetings with accountants across all Directorates to prepare the Statement of Accounts would have financial implications for the Council. Members were informed that there should be no additional cost as, by carrying out more preparatory work, there should be greater accuracy and hence less time needed to address errors.
- Clarification was sought as to whether there would be an increased cost to the Council for the appointment of the new external auditors (Mazars). Members were informed that the new arrangements should be more efficient and result in significant savings.
- Members asked about progress in ensuring that there was a consistent approach from all accountants when the accounts were prepared. Officers stated that regular meetings were being held with the accountants to ensure a common approach. Work was also taking

place to see how the financial system could be better used. When the move to West Offices took place all accountants would be working in the same area which would also be beneficial.

- Clarification was sought as to the accounting in respect of ward budgets. Officers stated that, as with other expenditure, the purchasing of goods and services should be in accordance with procurement procedures and the finance processes set up across the Council.
- At the request of Members, details were given as to the arrangements that were in place when the Authority borrowed for capital purposes. An update was also given on the situation in respect of surpluses i.e. reserves held on the Balance Sheet.
- Members requested that in the Annual Financial Report – Statement of Accounts, Note 49 – Defined Benefit Pension Schemes, the first paragraph be reworded to ensure greater clarity.
- Councillor Runciman sought clarification of the Annual Financial Report – Statement of Accounts, Note 1 Accounting Policies section XIV – Interests in Companies and Other Entities – York Business Development Ltd regarding Accounting Policies XIV - York Business Development Ltd. She asked whether CYC still had an interest. Officers agreed to email this information to her following the meeting.¹
- Referring to section XVII of Note 1 in the Annual Financial Report – Statement of Accounts, Members asked if account had been taken of the fact that a number of leases were due to come to an end in the next few years. Confirmation was given that this had been taken into account.
- In the Annual Financial Report – Statement of Accounts, Note 1 Accounting Policies section XIV Councillor Runciman sought clarification as to this year's contribution from the Yorkshire Purchasing Organisation. Officers agreed to email this information to her following the meeting¹.
- Members requested that a training session be held on the Local Government Pension Scheme to enable them to gain a greater understanding as to how it worked². Officers agreed to make the necessary arrangements.
- In the Annual Financial Report – Statement of Accounts, Collection Fund, Members noted the position in respect of income from business rates and

questioned if there had been a fall from previous years. Officers confirmed that collection rates remained as high as previously. Members also noted the changes in the regulations to occur in NNDR/Business Rates to come into effect next year.

- In the Annual Financial Report – Statement of Accounts, Note 50 Contingent Liabilities, at the request of Members, details were given of the situation in respect of Municipal Mutual Insurance Ltd and the implications of a recent court ruling in relation to employers' liability for occupational disease claims.
- In the Annual Financial Report – Statement of Accounts Glossary, Members requested that the details in respect of the Monitoring Officer be updated.
- Members requested that, when accounts were presented in future, every effort was made to ensure that correct grammar was used and that the type face and font size was easier to read.

Members expressed their appreciation of the work that Louise Branford-White and her colleagues had carried out to prepare the accounts.

(ii) Annual Governance Report 2011/12

Members also considered a report that brought to their attention the Audit Commission's Annual Governance Report. The report asked Members to agree the Council's response in the Letter of Representation and sought approval to changes to the 2011/12 Financial Statement.

The representative from the Audit Commission stated that this year's audit process had gone smoothly and the quality of the accounts and the supporting work was of a higher standard than previously. She paid tribute to the way in which the service accountants had responded to requests for information.

Members' attention was drawn to the value for money conclusion on pages 12 and 13 of the report and to the Audit letter. It was noted that documents referred to on page 6 of the Annual Governance Report had now been received and hence an unqualified opinion on the financial statements would be issued.

Some Members were concerned to note that schools' balances had been reconciled on 23 March 2012 rather than 31 March 2012. Officers stated that this situation had arisen because of the timing of the school Easter holidays and that there had been no material difference. Members' view was that, in the future, schools' accounts should perhaps be reconciled on 31 March.

Members sought assurances that the work that was planned on the valuation of assets would be completed within the proposed timescale. Officers confirmed that a new fixed asset system would be in place and that this would assist in the process.

- RESOLVED:
- (i) That the Final Annual Financial Report – Statement of Accounts for 2011/12 be noted.
 - (ii) That the Annual Governance Report be noted.
 - (iii) That the items identified as material misstatements on pages 6 and 7 of the Annual Governance Report (errors adjusted by management) be noted and the 2011/12 Statement of Accounts be amended for those items.
 - (iv) That the amended Annual Financial Report – Statement of Accounts 2011/12 be approved for signature by the Chair in accordance with the Accounts and Audit Regulations 2003 (as amended)
 - (v) That the letter of representation – Appendix 2 of the Audit Commission's Annual Governance Report be approved.
 - (vi) That the anticipated receipt of an unqualified Audit Opinion to both the Statement of Accounts 2011/12

and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources be noted.

- (vii) That the Draft Annual Audit Letter, which would be published on the Council's and Audit Commission's website at the conclusion of the audit, be noted.

REASONS:

- (i) It is a statutory requirement that a committee of the Council or Full Council approves the Statement of Accounts for 2011/12 by 30 September 2012.
- (ii) To ensure the proper consideration of the opinion and conclusions of the External Auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.
- (iii) – (v) To ensure compliance with International Auditing Standards and relevant legislative requirements.
- (vi) To ensure Members of the Audit and Governance Committee are aware of any matters arising from the annual audit of the Statement of Accounts.
- (vii) To ensure Members are aware of the contents of the Annual Audit Letter.

Action Required

- 1. Send information to Cllr Runciman LBW
- 2. Arrange training session in consultation with Tracy Wallis LBW

21. KEY CORPORATE RISK MONITOR QUARTER 2

Members considered a report that gave an update on the key corporate risks, and highlighted in more detail any emerging risk issues with a view to Members considering any further information they would wish to receive.

It was noted that the two critical Key Corporate Risks (KCRs) had not changed since Monitor 1 - i.e. Safeguarding and Financial Pressures. Views were expressed that the KCR in respect of safeguarding should encompass adults and not focus solely on children. Members also stressed the wider risks associated with adult social care, including the financial implications associated with the demographic. They requested that the Committee receive regular updates on the risks associated with social care.

Members noted that the number of high KCRs had increased due to the inclusion of some new high level risks around the Community Stadium project.

Consideration was given to the risks relating to the Accommodation Programme, as detailed in paragraphs 7 to 11 of the report.

Consideration was also given to the directorate risk reporting agenda set out at paragraph 17 of the report.

- RESOLVED:
- (i) That the risks relating to the Accommodation Programme be noted.
 - (ii) That the directorate risk reporting agenda set out in paragraph 17 of the report be approved.
 - (iii) That the Committee receive regular updates on the risks associated with social care¹.

- REASONS:
- (i) To provide assurance that the authority is effectively understanding and managing its key risks.

- (ii) To ensure that directorates bring forward updated risk reports providing assurance that risk is being properly managed through 2012/13.

Action Required

- 1. Include regular updates on reports presented to the committee LN

22. INTERNAL AUDIT FOLLOW UP REPORT

Members received a report that was presented on a six monthly basis to set out progress made by council departments in implementing actions agreed as part of internal audit work.

Clarification was sought regarding the issue that had now been escalated to the relevant director. Officers stated that this was a priority 3 action. The action related to a Human Resources issue and would be brought to the Committee's attention if the situation escalated.

RESOLVED: That the progress made in implementing internal audit agreed actions, as reported in paragraphs 5-12 of the report, be noted.

REASON: To enable Members to fulfil their role in providing independent assurance on the council's control environment.

23. AUDIT, COUNTER FRAUD AND INFORMATION GOVERNANCE

Members considered a report that provided an update on progress made in delivering the internal audit work plan for 2012/13 and on current counter fraud and information governance activity.

Officers reported that good progress was being made on the delivery of the Audit Plan. Members noted that, in line with the situation in other local authorities, there had been an increase in the number of Freedom of Information requests.

Members expressed concern about the weaknesses identified in respect of health and safety issues. Officers confirmed that action plans were in place to address the issues and to ensure that health and safety was given sufficient priority.

Clarification was sought in respect of the weaknesses that had been identified regarding debt chasing for the Commercial Waste service. Officers stated that there had been instances when the service had continued to be delivered although payments had ceased. Action had now been taken to address this matter. There were no concerns regarding the general arrangements that the Council had in place for debt recovery.

RESOLVED: That the progress made in delivering the 2012/13 internal audit work programme and current counter fraud and information governance activity be noted.

REASON: To ensure that Members are aware of the implications of audit and fraud findings.

24. DIRECT PAYMENTS UPDATE REPORT

Members considered a report that provided an update on action taken by officers to address weaknesses identified in monitoring direct payments during a 2011/12 audit.

Officers stated that there had been an improvement in the situation although there was still work to be done. They would be assisting the department to further develop the systems that were in place.

RESOLVED: (i) That the progress made to date to implement actions agreed following the audit of personalisation and direct payments in 2011/12 be noted.

(ii) That a further report be presented to the Committee to update them on progress¹.

REASON: To enable Members to fulfil their role in providing independent assurance on the council's control environment.

Action Required

1. Include on Committee's Workplan

EA

Councillor Cunningham-Cross, Chair

[The meeting started at 4.30 pm and finished at 6.00 pm].

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Audit and Governance Committee

12 December 2012

Report of the Director of CBSS

Audit & Governance Committee Forward Plan to September 2013**Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to September 2013.

Background

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an Annex is the indicative rolling Forward Plan for meetings to September. This may be subject to change depending on key internal control and governance developments at the time. A rolling Forward Plan of the Committee will be reported at every meeting reflecting any known changes.
3. There has been one amendment made to the forward plan since the previous version was presented to this Committee in September 2012. The 2011/12 Grant Claims report has been brought forward from the February 2013 meeting to the December 2012 meeting.

Consultation

4. The Forward Plan is subject to discussion by members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

Options

5. Not relevant for the purpose of the report.

Analysis

6. Not relevant for the purpose of the report.

Council Plan

7. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

Implications

8.
 - (a)**Financial** - There are no implications
 - (b)**Human Resources (HR)** - There are no implications
 - (c)**Equalities** - There are no implications
 - (d)**Legal** - There are no implications
 - (e)**Crime and Disorder** - There are no implications
 - (f) **Information Technology (IT)** - There are no implications
 - (g)**Property** - There are no implications

Risk Management

9. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

Recommendations

10.
 - (a) The Committee's Forward Plan for the period up to September 2013 be noted.

Reason

To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.

- (b) Members identify any further items they wish to add to the Forward Plan.

Reason

To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.

Contact Details

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Ian Floyd
Director of CBSS
Telephone: 01904 551100

**Report
Approved**



Date 12/12/2012

Specialist Implications Officers

Head of Civic, Democratic & Legal Services

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annex

Audit & Governance Committee Forward Plan to September 2013

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Audit & Governance Committee Draft Forward Plan to September 2013

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

- **Committee 13th February 2013**

Key Corporate Risk Monitor Quarter 4 (Including ACE Risks)

2012/13 Review of the effectiveness of Internal Audit

Scrutiny of the Treasury Management Monitor 3 Report 2012/13 and Review of Prudential Indicators

Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators

Counter Fraud: Risk Assessment and Review of Policies

Internal Audit Plan Consultation

*Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any)*

- **Committee 17 April 2013**

Approval of Internal Audit Plan

Annual Report of the Audit & Governance Committee

Internal Audit & Fraud Plan Progress Report

Follow up of Internal and External Audit Recommendations

*Audit Commission national reports summary (if any)
Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any)*

- **Committee June 2013 (Date TBC)**

Review of effectiveness of Internal Audit

Annual Report of the Head of Internal Audit

Draft Annual Governance Statement

Audit Commission national reports summary (if any)

*Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any)*

- **Committee July 2013 (Date TBC)**

Draft Statement of Accounts 2012/13

Scrutiny of the Treasury Management Annual Report 2012/13 and review of prudential indicators

Key Corporate Risk Monitor Quarter 1 (Including directorate risks)

Report to update on the Progress of Direct Payments

*Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any)*

- **Committee September 2013 (Date TBC)**

Final Statement of Accounts 2012/13

Annual Governance Report 2012/13

Corporate Risk Monitor Quarter 2 (Including directorate risks)

Follow up of Internal & External Audit Recommendations

Internal Audit & Fraud Plan Progress Report

Audit Commission national reports summary (if any)

*Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any)*



Audit & Governance Committee**12 December 2012**

Report of the Assistant Director CBSS (Finance, Asset Management & Procurement)

Key Corporate Risk Monitor Three 2012/13**Summary**

1. The purpose of this paper is to present to Audit & Governance Committee (A&G) an update on the key corporate risks, and to highlight in more detail any emerging risk issues with a view to members considering any further information they would wish to receive on these matters.

Background

2. The risk management process at York ensures that all key and emerging risk are reported regularly to A&G and on at least a quarterly basis. The purpose of this paper is to provide assurance that the council identifies understands and is effectively managing its key risks. The detailed corporate risk register containing the key high and critical corporate risks is provided to A&G members in advance of the committee meeting.

Current Risk Issues

3. The council is entering a critical period in terms of financial risk. The budget process for 2013/14 and 2014/15 is currently underway with a background of continuing Government spending cuts, inflationary and demographic pressures on the Adult Social Care budget and the localisation of Council Tax Support and Business Rates. The autumn statement is likely to bring further cuts in local authority funding and increasing financial pressure hindering our ability to continue to deliver all council services.

4. The Council will need to make a decision in December 2012 on its local council tax support scheme the options open to the council all carry financial risk whether this is through non collection from former council tax benefit customers, restrictive billing powers through the Government's transitional grant, the requirement for additional savings to be identified in 2013/14 or a combination of all.
5. The council's ability to raise additional income through locally retained business rates is also at a critical stage with the Government about to announce York's business rate baseline. Once this is known we will have a clearer picture of our position and the level of opportunity to generate additional income through continuing to develop and grow the York economy.
6. The plans for relocating all council services into the two locations at Hazel Court and West Offices is also reaching a critical phase with services due to start moving out of existing accommodation in early February 2013 with all moves being completed by 31 March 2013.
7. The council's mid year budget position has improved but there is still much work to be done in ensuring that the council outturns with a balanced budget.
8. Progress has been made in terms of the waste PFI following the approval of planning permission for the Allerton Waste Recovery Park but the risk of a public enquiry remains until such time as it is approved by the Secretary of State.
9. The Community Stadium risk in relation to a Judicial Review expired at the end of October 2012. There are however continuing risk issues in relation to S106 funding, agreeing terms on the new athletic facility, the lease for interim operation of the stadium during procurement and project funding & resource.
10. The transfer of Public Health to the council also has a number of risks associated with it. Two key risks are in relation to the level of funding the council will receive compared to the level and cost of responsibility being

transferred and the ability to efficiently deliver the service due to restrictive access to health data.

11. The position of the council's two critical key corporate risks as at the end of October are set out below:

KCR0019 Safeguarding

Safeguarding (Eoin Rush)

"In common with every other local authority this risk remains a constant. The controls in place are regularly reviewed and updated in line with emerging national guidance. Measures to review and strengthen the controls in place to manage this risk in the next year include, review of social care structure in light of Munro, Social Work Reform Board recommendations and the development of a City wide Integrated Family Service

KCR 0022 Financial Pressures

Reduction in Revenue Budgets (Ian Floyd)

"The requirement to respond to the public sector spending reductions/deal with demographic cost pressures, presents a financial challenge the scale of which the Council has never experienced. Reductions of some £40m from 2011-14 are required, and further savings will be needed in the future. Whilst long term financial planning provides a key control, critical to the organisation being able to manage this risk effectively lies in identifying and achieving the savings identified in service reviews and through making difficult choices in the way services are delivered. Achievement of the savings will also require both a full commitment across the organisation and a robust approach to the ongoing monitoring of the savings programme."

Whole Risk Diagnostic

12. The council is intending to review its risks and risk management processes during the 2012/13 financial year. Whilst the current risk management methodology ensures

that risks are regularly reviewed it is some time since a full review has been undertaken. This work will be supported by Zurich Municipal's Risk Management Services under the council's insurance programme and at no cost to the council.

13. The purpose of the Whole Risk Diagnostic (WRD) approach is to allow us to gain new insight into some of the risks we face and provide fresh thinking as regards potential solutions around these risks. An initial meeting has already been undertaken with the council's Chief Executive to provide a strategic overview of some of the key challenges facing the council. Some of the challenges highlighted at the meeting included:
 - Changes to Health & Social Care and risks to vulnerable elderly residents;
 - Changes to the Criminal Justice System including the appointment of Police & Crime Commissioners and their new role;
 - The management of key partnerships such as the Waste Management Strategy Partnership;
 - Enabling the citizens of York to take a role in their community by building both hard and soft infrastructure;
 - Management of key assets;
 - Delivery of the key aspirations of the Capital Programme;
 - Housing supply;
 - Welfare reform changes.

14. The review will also look at the current risk management processes and how they can be more clearly integrated with the Business Strategy of the council.

Directorate Risk Reports

15. The risks in respect of Communities and Neighbourhoods and City & Environmental Services are attached to this paper at Annex A & B respectively. Officers from both Directorates are in attendance to answer any queries you have in respect of the risks contained within the annex.

16. The timetable for risk reports from the other council directorates is set out below:

A&G Committee Date Directorate

13 February 2013

Adults, Children and Education

Options

17. Not applicable.

Council Plan 2011 - 2015

18. The effective consideration and management of risk within all of the council's business processes helps support achieving 'a confident collaborative organisation' and aid the successful delivery of the five priorities.

Implications

- (a) **Financial** - There are no implications
- (b) **Human Resources (HR)** - There are no implications
- (c) **Equalities** - There are no implications
- (d) **Legal** - There are no implications
- (e) **Crime and Disorder** - There are no implications
- (f) **Information Technology (IT)** - There are no implications
- (g) **Property** - There are no implications

Risk Management

19. In compliance with the council's Risk Management Strategy, there are no risks directly associated with the recommendations of this report. The activity resulting from this report will contribute to improving the council's internal control environment.

Recommendations

20. A&G are asked to:

- (a) Consider and comment on the issues set out in this paper.

Reason

To provide assurance that the authority is effectively understanding and managing its key risks.

Contact Details

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Procedures
Phone No. 01904 552261

Tracey Carter
Assistant Director Customer and
Business Support Services (Finance,
Asset Management and Procurement)

**Report
Approved**



Date 29.11.2012

Specialist Implications Officer(s) Not applicable

Wards Affected Not applicable

All



For further information please contact the author of the report

Background Papers

Key Corporate Risk Monitor Two 2012/13.

Annexes

Annex A – Communities and Neighbourhoods Risk Report
Annex B – City and Environment Services Risk Report

Directorate Risks – Communities and Neighbourhoods

This note looks at the main risks within CAN, and focuses upon a generic overarching risk of reduced funding, and then more specific service based issues.

1) Reduced Funding

In looking at the overall risks facing the Directorate, the overwhelming major risk area is that of reduced funding and the implications that brings to the Directorate. The scale of the funding reductions, and the level of savings required is unprecedented, and is on the back of major reductions that have already taken place.

Within CAN since 2011/12 efficiency savings of £5.6m have already been achieved through restructuring, consolidation of services, and additional income. Looking ahead however, a further £2.6m of savings will be expected of the Directorate in 14/15 as part of the 2 year budget.

This brings with it risks in a number of ways and in particular there are two broad themes to these risks:

- Reduced staff levels which mean lower service levels, impacting on both internal and external customers and impact on staff morale, due to ongoing restructuring/potential job loss
- Significant loss on trading accounts

Reduced staffing levels, the implications for service delivery and impact on staff morale.

Key front line services to the public are provided by the CAN Directorate, covering Communities, Culture, Public Realm, Housing including Building Maintenance, Public Protection, Community Safety and Public Health.

There are natural risks in providing service – a failure to deliver some of the front line services, due to reduced resource levels, could lead to further implications and cost. Failure to manage budgets effectively, or to properly address the HR implications of major change, could result in added cost pressures. In addition job losses and cuts in services will

impact on customer satisfaction and staff morale. Levels of sickness may increase due to staff stress.

The Directorate has to date shown its ability to deliver major efficiency changes, and structural change. Major restructuring has taken place in recent years, including major reductions in senior management. To mitigate risks all managers are involved in reviewing services to cut out waste or increase income. Staff are updated with regards the current financial climate and asked to contribute ideas for remodelling services. Staff sickness is regularly reported and monitored. The Corporate Health and Wellbeing initiatives are available to staff. Community Impact Assessments are also undertaken to establish the public impact on changes to services and regular dialogue is undertaken with members identifying the implications of change.

Significant Loss on Trading Accounts

Failure to deliver a profit on trading accounts will result in the Council's income being reduced which could result in further redundancies and service cuts and decline in customer satisfaction. To manage this risk the Directorate is maintaining a partnership approach with major clients and continually looking at ways to improve cost effectiveness and identifying increasing income opportunities.

2) Other Directorate Risks

Significant specific tasks which the Directorate lead upon are summarised below, with brief comment about the main risks

-Transition of Public Health to the Local Authority from the PCT There are two major risks in terms of finance and the transferring of contracts. The financial allocation to CYC is based on historical spend in the PCT for 10-11 up-rated by inflation and other amendments. The actual allocation will be published on 19 December 2012 but will not be less than the original estimate published earlier this year of around £5.7m. The risk is that it will be insufficient to fund all the contracts and liabilities that will pass to the Council on 1 April 2013. We are mitigating by working out the likely liabilities at the moment and will see what the allocation is in December.

With regards contracts there are about 30-40 contracts that need to be moved from the NHS to the Local Authority and there is a risk that some are not transferred in time for 1 April 2013 and a

- theoretical risk of a break in delivery. A contracts group meets fortnightly to review contract transfer and is making good progress.
- **Failure to meet air quality targets** - This risk concerns the ability of the Council to ensure that the air quality in certain areas of the city meets the health based air quality objectives. This could result in an adverse impact on the council's reputation and the health of residents. The risk is being managed through annual review of the air quality action plan, and the implementation of the recently approved Low Omission Strategy for the city.
 - **Accidents at work.** Failure of staff to adopt safe working practices could lead to a member of staff being hurt or killed. To mitigate risks, assessments are carried out. Staff are made aware of safe working practices and policies. Health and safety training is undertaken and where relevant protective clothing and equipment is issued. Routine checks of equipment are made and regular reporting and review of accidents is undertaken.
 - **Failure to deliver the Councils Equality Scheme-** Failure to deliver the scheme could mean that the Council could be in breach of the requirements of legislation and inspection bodies. This can result in legal action, fines and poor inspection results. The Council's Equality Scheme is supported by a robust performance management framework and regular updates will be provided to the Council's Equality and Leadership Group and the Equalities and Advisory Group this should ensure that actions in relation to the Council meeting its statutory requirements are not overlooked.
 - **Lack of Health and Safety Checks in Council Properties-** Lack of gas and electricity checks in council properties could lead to loss of life. To mitigate this risk annual gas and safety checks are undertaken and health and safety information is included in Housing's quarterly newsletter 'Streets Ahead'.
 - **Reduced funding for adaptations which results in Vulnerable customers put at risk by living in difficult and dangerous conditions** -.The council have a duty to assess and make arrangements for adaptations via the chronically sick and disabled persons act 1970. The council also has mandatory duty to provide grants for adaptations via the Housing Grants Construction and Regeneration Act 1996. Lack of funding could prevent the council fulfilling its legal duties which could lead to a serious accident or fatality. To minimize risk and ensure funding is used effectively an assessment framework is in place to establish priorities for assistance and access to alternative support packages.

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Directorate Risks – City and Environmental Services

This note looks at the main risks within CES, and focuses upon a generic overarching risk of reduced funding, and then more specific service based issues.

1) Reduced Funding

In looking at the overall risks facing the Directorate, the overwhelming major risk area is that of reduced funding and the implications that brings to the Directorate. The scale of the funding reductions, and the level of savings required is unprecedented, and is on the back of major reductions that have already taken place.

Within CES since 2011/12 efficiency savings of £8.3m have already been achieved through restructuring, consolidation of services, and additional income. Looking ahead however, a further £2.24m of savings will be expected of the Directorate in 14/15 as part of the 2 year budget.

This brings with it risks in a number of ways and in particular there are two broad themes to these risks:

- Reduced staff levels which mean lower service levels, impacting on both internal and external customers and impact on staff morale, due to ongoing restructuring/potential job loss
- Financial Pressures

Reduced staffing levels, the implications for service delivery and impact on staff morale.

The CES Directorate provide key services for CYC including the development of the Local Plan and the delivery of major projects such as the Community Stadium, the PFI Waste Management Facility, and Local Transport Projects etc. The Directorate has undergone and is undergoing major organisational change. Within the change process failure to manage budgets effectively, or to properly address the HR implications of major change, could result in added cost pressures. In addition job losses and cuts in services will impact on customer satisfaction and staff morale. Levels of sickness may increase due to staff stress.

The Directorate has to date shown its ability to deliver major efficiency changes, and structural change. Major restructuring has taken place in recent years, including major reductions in senior management. To mitigate risks all managers are involved in reviewing services to cut out waste or increase income. Staff are updated with regards the current financial climate and asked to contribute ideas for remodelling services. Staff sickness is regularly reported and monitored. The Corporate Health and Wellbeing initiatives are available to staff. Community Impact Assessments are also undertaken to establish the public impact on changes to services and regular dialogue is undertaken with members identifying the implications of change.

Financial Pressures

Contributing to the financial pressures of the Directorate are reduced levels of economic development due to less investment of national and regional transport infrastructure. This could mean that there is less investment available for supporting infrastructure affecting the future economic prosperity of the city. The Directorate is therefore continually lobbying for sustainable levels of investment and funding and is project managing several initiatives.

The Directorate hope to alleviate some of its financial pressures through income generation opportunities. However budget reliance depends on large values of income from a few service areas. Effective and consistent financial monitoring and reporting of key budget variables are in place to monitor income levels.

2) Other Directorate Risks

- **Capital Programmes**- Failure to deliver on these externally funded schemes will restrict the Council's ability to secure future capital funds for vital infrastructure works and improvements to its assets. Failure to deliver will hinder the council's ability to provide improved services to its customers. To monitor capital programmes effectively a project management framework is being adhered to and the establishment of project boards and projects managers with regular project updates being provided.

Intelligent Travel York Project - Failure to deliver relevant schemes on the ground to qualify for the relevant funding. In order to ensure this does not happen projects have been prioritised and claims to the DfT are submitted on a quarterly basis.

-The Waste PFI partnership- Failure to deliver this partnership will mean highly significant financial impact on the Council's finances, because of the level of fines imposed by the Government. Controls that are in place include reporting to Cabinet on a regular basis and regular meeting of senior officers from the two Authorities. Failure to agree the final contract with bidder will result in delays and have an impact on the council meeting its landfill targets.

-Inability to continue to deliver services following a business disruption event- A Business Continuity Working group has been established. Senior Managers have undertaken impact assessment and a Business Continuity plan is to be developed.

-Inability to respond to and assist in the recovery of city of York after a major incident - Under the Civil Contingencies Act, as a local authority, it is the role of City of York Council to support the emergency services in the case of a major emergency and to provide aid and assistance and advice to the general public. Emergency services may not be completely supported which could hinder the promptness of their response, the speed of recovery of the city, and vulnerable people within the city may be put at risk. To mitigate the risk Emergency Plans are in place and Emergency Planning exercises take place. Officers are on call and engagement with regional partners via local resilience forum takes place.

-Tackling Climate Change – If the Council does not achieve climate change targets then this will cause the council to incur increased costs due to damages relating to future climatic changes. The council's reputation can also be affected. This will also put people's lives and businesses at greater risk. To mitigate risks a Climate Change strategy and Low Omissions strategy has been developed. Key climate change actions and targets are included in Directorate Service Plans. Tackling Climate Change is a key priority of the recently established Environment Board.

-Highway Management Breach of Statutory Duty - Resources not available and/or systems not working could result in a Traffic Management Act failure to manage the Highway network to the maximum efficiency which could result in the Government stepping in and taking over the powers of the Council to manage its highways network. This would, amongst other matters, remove from Council influence the advice given to the Planning Committee and the relative priority given to Highway related matters and Council Objectives. To reduce the risk CMT and Cabinet are made fully aware of the impact of policy decisions on the Council's statutory duties.

- York North West Development - Failure to meet housing and economic targets Community benefit for city not achieved. There is regular monitoring by York Central Group and dialogue between partner organisations and key stakeholders

- Exceptional transport infrastructure failure- Failure of CCTV UTMC, Bus/Rail services could potentially result in traffic chaos within the city. To mitigate this a Business Continuity plan is in place and regular inspection of equipment takes place.



Audit and Governance Committee

12 December 2012

Report of the Director of Customer & Business Support Services

External Audit Fee Letter 2012/13- Mazars**Summary**

1. This paper introduces the External Audit 2012/13 fee planning letter (see annex A) prepared by Mazars.

Background

2. As has previously been communicated to members, the provision of the Council's external Audit Service has transferred from the Audit Commission to Mazars.
3. The District Auditor reports annually to inform officers and members his proposed fees and arrangements for external Audit and certification work.
4. The Letter provides details of the Final Fee for 2011/12 of £265,067 for the Audit and certification work along with the proposed fees for 2012/13 totaling £155,356.
5. This reduction in fee is due to the change in audit arrangements and the government's drive for increased efficiency and lower costs. Previously the fees had covered not only the cost of local audit work but also the cost of the Audit Commission's national functions. Now that these functions have been wound up the authority is no longer required to bear the cost.
6. The proposed fee assumes Mazars will be provided with complete and materially accurate financial statements with supporting working papers in agreed timeframes. Therefore there is a risk the fee will be higher if the quality of the working papers provided are not to a suitable standard.

7. The letter also provides an outline of the proposed work programme the fee will cover including:

- The audit of the Statement of Accounts
- Value for money work
- Whole of Government Accounts Assurance work
- Certification of selected grant claims and returns

Consultation

8. Not relevant for the purpose of the report.

Options

9. Not relevant for the purpose of the report.

Analysis

10. Not relevant for the purpose of the report.

Corporate Priorities

11. This report contributes to the overall effectiveness of the council's governance and assurance arrangements.

Implications

12. There are no financial, HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

Risk Management

13. By not responding effectively to the matters contained in this report, the council will fail to properly comply with legislative and best practice requirements.

Recommendations

14. Members are asked to:

Note the contents of this report and the Fees Letter attached at Annex A

Reason

To make members aware of the proposed external Audit fee and arrangements

Contact Details

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**Report
Approved**



Date 30.11.2012

Specialist Implications Officers

Not applicable

Wards Affected:

All

For further information please contact the author of the report

Background Papers:

None

Annex

External Audit Fee Planning Letter 2012/13

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M A Z A R S

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 Chief Executive
 City of York Council
 The Guildhall
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Our ref Our ref CYC 13/1

Direct line +44 (0)191 383 6230

Email Steve.Nicklin@mazars.co.uk

16 November 2012

Dear Kersten

City of York Council - External audit 2012/13 fee planning

I am pleased to confirm that on 1 November 2012 I began my appointment as your external audit engagement lead for 2012/13. This will be my fifth year fulfilling this role for you, although the first as a Director with Mazars LLP. This means that I will continue to work closely with you, your staff and members to ensure that my team provides the highest quality service.

On 5 October Gareth Davies, Mazars' Public Services Partner, wrote to the Council outlining the fee for your external audit and the proposed approach for billing. I am writing to you now to confirm that fee and to provide further details of my 2012/13 programme of work. I will provide you with a comprehensive Audit Strategy Memorandum in February 2013.

Fees

The table below includes my proposed fees. I confirm that the fees are in line with the Audit Commission's published scale fee. At this stage I am not proposing any non-audit work.

Audit area	Proposed fee (2012/13)	Final fee (2011/12)
Audit	£134,406	£224,010
Certification work	£ 20,950	£ 41,057

The Audit Commission's scale fee assumes that you are able to provide me with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes. Additional fees may become payable if this proves not to be the case.

Mazars LLP – The Rivergreen Centre - Aykley Heads - Durham - DH1 5TS
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Registered by the Institute of Chartered Accountants in England and Wales to carry out audit work



INVESTOR IN PEOPLE



MEMBER
 GLOBAL ALLIANCE OF
 INDEPENDENT FIRMS



Outline of work programme

My proposed audit fee covers:

- The audit of your statement of accounts;
- My work to conclude on your arrangements for value for money; and
- The assurance I am required to provide to the National Audit Office on the consistency of your Whole of Government Accounts return with the audited financial statements.

My work programme also includes certifying the following grant claims and returns, in accordance with Certification Instructions issued by the Audit Commission:

- Housing and Council Tax Benefits subsidy claim;
- National non-domestic rates pooling return;
- Annual return to Teachers' Pensions Agency;
- Housing receipts pooling return.

Audit fees for any additional grant claims undertaken will be agreed in advance .I will address any legal challenge work prompted by local electors at the rate prescribed by the Audit Commission.

At this stage my risk assessment of the Council is under way but not yet complete. I will issue my Audit Strategy Memorandum in February 2013. This will communicate to you the risks that I identify in relation to this work programme and the action I plan to take in response.

Yours sincerely

Steve

Steve Nicklin

Director and Engagement Lead, Mazars LLP

CC: Mr I Floyd, Director of Customer and Business Support Services



Audit and Governance Committee

12 December 2012

Report of the Cabinet Member for Corporate Services

Certification of Claims and Returns 2011/12 – Audit Commission**Summary**

1. The purpose of this report is to allow consideration of the Certificate of Claims and Returns Report 2011/12 produced by the Audit Commission (Annex A). The report reviews the Council's arrangements for the preparation and administration of grant claims within the Council, which has continued to improve over the last few years.

Background

2. The report identifies that the Audit Commission was responsible for certifying 6 claims and returns in 2011/12 (compared to 9 claims in 2009/10). This certification work is charged on an hourly basis to the Council; this totalled £41,057 in 2011/12 (£46,785 in 2010/11, £49,462 in 2009/10, and £54,806 in 2008/09).
3. The reduction in the audit commission's fee has occurred due to fewer claims to audit but also improved working papers from Council employees, a reduction in the number of amendments on individual claims and timely submission allowing the Audit Commission to plan and certify claims by the required deadlines.
4. The results of the Audit Commission's certification work showed that one out of the six claims audited required amendment – Teachers Pension Return (compared to four out of nine claims in 2010/11). Two claims were qualified - Housing and council tax benefit scheme and National non-domestic rates return. The qualification letter for Housing and council tax benefit scheme identified some calculation errors of benefit, where the value of amendments was in respect of 'roundings' and not significant. The qualification letter for NNDR was in respect of some transitional

relief certificates being incorrectly processed, the value was not significant and the corrections have been made.

5. Overall the Audit Commission's certification work, of public money received through the government, provides assurance that claims made are accurate, and that any relevant terms and conditions have been met.
6. As a result of the discussions with the audit commission from this review the Council continues to maintain high level of working papers and focuses on producing audit certification of claims or returns with no requirements for amendment or qualifications in future.

Consultation

7. Officers have contributed to this report where appropriate.

Options

8. Not relevant for the purpose of the report.

Analysis

9. Not relevant for the purpose of the report.

Council Plan

10. This report contributes to the overall aims and priorities by helping to ensure probity, integrity and honesty in everything it does.

Implications

11. There are no financial implications other than those outlined in the report. There are no HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

Risk Management

12. Failure to provide adequate arrangements for the administration and preparation of grant claims result in both financial and reputation risks to the Council.

Recommendations

13. Members are asked to:

Note the Audit Commissions Certification of Claims and Returns report at Annex A.

Reason

To enable Members to consider the effectiveness of the council's grant administration activity and comment on the current arrangements.

Contact Details

Author: **Chief Officer Responsible for the report:**

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Ian Floyd
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**Report
Approved**



Date 12/12/2012

Specialist Implications Officers

Not applicable

Wards Affected:

All

For further information please contact the author of the report

Background Papers:

Audit and Governance Committee 13 February 2012: Grant Claim
Certification Report 2010/11 – Audit Commission

Annex

*Certification of Claims and Returns Annual Report 2011/12 – Audit
Commission*

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Certification of claims and

returns

City of York Council

Audit 2011/12



Contents

Summary of 2011/12 certification work3

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Summary of 2011/12 certification work

Local authorities claim large sums of public money through government grants and subsidies. Our work is carried out at the request of grant paying bodies and in accordance with certification instructions (CIs) issued by the Audit Commission. It provides assurance that claims made are accurate, and that any relevant terms and conditions have been met.

This report summarises the outcomes of my certification work at City of York Council in 2011/12, and highlights any significant issues arising.

Table 1: Summary of 2011/12 certification work

Claim or return	Value	Amendments made *	Qualification issued? **
Housing and council tax benefit scheme	£53,999,987	Nil	Yes – isolated error on CT single person discounts
Pooling of housing capital receipts	£412,438	Nil	None
HRA subsidy	-£7,681,219	Nil	None
National non-domestic rates return	£90,088,569	Nil	Yes –some transitional relief certificates had been incorrectly processed, however these have been corrected in 2012/13
Teachers' pensions return	£9,421,123	Yes - £218,945 amendment to cell 1 (total teachers' pensionable pay)	None
Yorkshire Forward	£158,000	Nil	None

* Claims and returns may be amended where I agree with officers that this is necessary.

** I may need to issue a qualification letter where there is disagreement, uncertainty, or non-compliance.

2011/12 Certification fees

This section summarises the fees arising from my 2011/12 certification work and highlights the reasons for any significant changes in the level of fees from the previous year. In overall terms our workload and fees have reduced substantially, and this trend is expected to continue in 2012/13.

Table 2: **Summary of certification fees 2011/12**

Claim or return	2010/11	2011/12	Reasons for changes in fee
Housing and council tax benefit scheme	£28,350	£28,997	Increase in national fee rates. Actual time taken to complete the work was slightly less than in the previous year.
Pooling of housing capital receipts	£730	£596	Reduction in the value of receipts and consequently the amount of work required.
HRA subsidy	£3,654	£3,867	Increase in national fee rates. Actual time taken to complete the work was slightly less than in the previous year.
Housing finance base data return	£5,327	0	Subsidy regime wound up in 2011/12, no requirement for future years.
National non-domestic rates return	£4,010	£4,110	Additional work required on qualification issue (transitional relief)
Teachers' pensions return	£1,325	£1,487	Additional work required to amend 2011/12 claim (see above)
Sure start (early years grant)	£1,249	0	Fixed term funding ended in 2010/11
Yorkshire Forward	£1,240	£1,460	Smaller value grant claim in 2010/11
Disabled facilities	£433	0	Grant funding no longer ring fenced so certification not required.
Management, planning and review	£467	£540	Increase in national fee rates. Actual time taken to complete the work was slightly less than in the previous year since we had fewer claims to audit and report on.
Total	£46,785	£41,057	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



www.audit-commission.gov.uk

October 2012

**Audit and Governance Committee**

12 December 2012

Report of the Head of Internal Audit

Audit, Counter Fraud & Information Governance Monitoring Report

Summary

- 1 This report provides an update on progress made in delivering the internal audit workplan for 2012/13 and on current counter fraud and information governance activity.

Background

- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2011 and the CIPFA Code of Practice for Internal Audit in Local Government. In accordance with the Code of Practice, the 2012/13 audit and fraud plan was approved by the Audit and Governance Committee on 2 April 2012. The plan included a programme of audit reviews, together with details of planned counter fraud and information governance activities. This report provides an update on work undertaken against the approved plan.

Internal Audit

- 3 Two of the priorities for Veritau are to deliver at least 93% of the audit plan and to ensure that the service continues to operate to recognised professional standards (as determined by the Code of Practice).
- 4 Internal audit successfully delivered 95.9% of the 2011/12 audit plan. To date, 38% of the 2012/13 audit plan has been completed (compared to 37% at this point last year). It is anticipated that the 93% target will be exceeded by the end of April 2013 (the cut off point for 2012/13 audits).

- 5 Details of the audits completed and reports issued since the last report to this committee in September 2012 are given in annex 1.
- 6 No variations to the 2012/13 audit plan have been made, to date.

Counter Fraud

- 7 Counter fraud work has been undertaken in accordance with the approved plan. Annex 2 provides details of the investigations completed to date and provides a summary of the work undertaken.

Information Governance

- 8 The Veritau Information Governance Team provides ongoing support to the council on information matters including:
 - data security and incident management
 - support for data protection subject access requests
 - the EDRMS project and the move to the new HQ
 - improving records management
 - advice and assistance on information law, related guidance and codes of practice
 - training on information-related matters and the publication of guidance
- 9 The team also administers the Staff Warning Register (a database of customers posing a risk to staff) and acts as RIPA coordinator. The Regulation of Investigatory Powers Act (RIPA) regulates the use of surveillance by council law enforcement services and the coordinator ensures compliance with the Act and the codes of practice, maintains the central record, supports quality control and arranges training. In June an inspection by the Surveillance Commissioner took place. A number of recommendations arising from this inspection are currently being implemented.

Breaches of Financial Regulations

- 10 A number of breaches of the council's financial regulations have been identified during the course of recent audit work. Details of these breaches are summarised in annex 3.

Consultation

- 11 Not relevant for the purpose of the report.

Options

- 12 Not relevant for the purpose of the report.

Analysis

- 13 Not relevant for the purpose of the report.

Council Plan

- 14 The work of internal audit, counter fraud, and information governance helps to support overall aims and priorities by promoting probity, integrity and accountability and by helping to make the council a more effective organisation.

Implications

- 15 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 16 The council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the results of audit work are not reported to those charged with governance.

Recommendation

17 Members are asked to:

- (a) Note the progress made in delivering the 2012/13 internal audit work programme, and current counter fraud and information governance activity.

Reason

To enable members to consider the implications of audit and fraud findings.

Contact Details

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Director of CBSS
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**Report
Approved**



Date 27/11/12

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

- 2012/13 Internal Audit, Counter Fraud, and Information Governance Plan

Annexes

Annex 1 – 2012/13 Audits Completed and Reports Issued
Annex 2 – Counter Fraud Activity
Annex 3 – Breaches of Financial Regulations

AUDITS COMPLETED AND REPORTS ISSUED

The following categories of opinion are used for audit reports.

Opinion	Level of Assurance
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Actions to address issues are agreed with managers where weaknesses in control are identified. The following categories are used to classify agreed actions.

<u>Priority</u>	<u>Long Definition</u>	<u>Short Definition – for use in Audit Reports</u>
1 (High)	<p>Action considered both critical and mandatory to protect the organisation from exposure to high or catastrophic risks. For example, death or injury of staff or customers, significant financial loss or major disruption to service continuity.</p> <p>These are fundamental matters relating to factors critical to the success of the area under review or which may impact upon the organisation as a whole. Failure to implement such recommendations may result in material loss or error or have an adverse impact upon the organisation's reputation.</p> <p>Such issues may require the input at Corporate Director/Assistant Director level and may result in significant and immediate action to address the issues raised.</p>	<p>A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.</p>
2	<p>Action considered necessary to improve or implement system controls so as to ensure an</p>	<p>A significant system weakness, whose impact or frequency presents risks to the system</p>

Priority

Long Definition

Short Definition – for use in Audit Reports

effective control environment exists to minimise exposure to significant risks such as financial or other loss.

objectives, and which needs to be addressed by management.

Such issues may require the input at Head of Service or senior management level and may result in significantly revised or new controls.

3

Action considered prudent to improve existing system controls to provide an effective control environment in order to minimise exposure to significant risks such as financial or other loss.

The system objectives are not exposed to significant risk, but the issue merits attention by management.

Such issues are usually matters that can be implemented through line management action and may result in efficiencies.

Draft Reports Issued

Seven internal audit reports are currently in draft. These reports are with management for consideration and comments. Once the reports have been finalised, details of the key findings and issues will be reported to this committee. The draft reports are categorised as follows:

Opinion	Number
High Assurance	0
Substantial Assurance	4
Moderate Assurance	1
Limited Assurance	1
No Assurance	0
Not given	1

Final Reports Issued

The table below shows audit reports finalised since the last report to this committee in September 2012. In all cases the recommendations made have been accepted by management, and will be followed up by internal audit.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
Elvington CE Primary School	20/09/2012	High Assurance	1	0	A school audit. No significant weaknesses were identified.

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
Leisure Facilities	22/10/2012	Substantial Assurance	3	0	A review of key systems and controls at the Energise leisure centre. The main area for improvement identified was the need for full stock checks to be undertaken and documented. It was agreed that these will be done on a quarterly basis in the future.
Clifton with Rawcliffe	02/11/2012	Substantial Assurance	5	0	A school audit. No significant weaknesses were identified.
Procurement Cards	05/11/2012	Limited Assurance	7	0	<p>An audit of the arrangements in place for the use of procurement cards. To date only 20 cards have been issued although the intention is for them to be rolled out more widely across the council. It was found that although suitable controls are generally in place, compliance with a number of these controls is currently unsatisfactory. Weaknesses identified include the following.</p> <ul style="list-style-type: none"> • A number of cardholders are not promptly entering transactions onto the purchasing system. • Approving managers are not always authorising

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					<p>transactions within appropriate timescales.</p> <ul style="list-style-type: none"> • VAT receipts are not always being obtained by users, resulting in financial loss to the council estimated at up to £700 per month. • There is a lack of policy on the intended use of cards, and clear guidance setting boundaries on their use. • There are no formal arrangements for approving the issue of cards to new users. <p>Actions have been discussed and agreed with the finance and procurement departments to address these weaknesses.</p>
Anti-Money Laundering Arrangements	28/09/2012	Moderate Assurance	6	0	<p>A review of arrangements in place across the council to prevent, detect and report potential money laundering. It was found that the risks of direct money laundering activity taking place within the council are limited due to the low (and reducing) levels of cash income received.</p> <p>However, to ensure the residual risks are properly</p>

Audit	Date Of Final Report	Opinion	Number of Agreed Actions		Work done / significant weaknesses / issues identified
			Total	Priority 1	
					<p>managed, improvements need to be made to:</p> <ul style="list-style-type: none"> • policies and procedures • arrangements for raising staff awareness, and training and • monitoring transactions.
Dringhouses Primary School	08/11/2012	Substantial Assurance	3	0	A school audit. No significant weaknesses were identified.

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COUNTER FRAUD ACTIVITY 2012/13

The table below shows the total numbers of fraud referrals received and summarises the outcomes of investigations completed to date. The indicators include the full range of counter fraud work undertaken.

	2012/13 (as at 31/10/12)	2012/13 (Target: Full Yr)	2011/12 (Actual: Full Yr)
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions, properties recovered, housing allocations blocked, management action taken).	48%	30%	38%
Number of investigations completed	164	320	335

Caseload figures for the period are:

	As at 1/4/12	As at 31/10/12
Awaiting allocation	68	22
Under investigation	195	147

Summary of counter fraud activity:

Activity	Work Completed or in Progress
Data Matching	<p>The 2012/13 National Fraud Initiative data provision has been completed. Data from a number of council departments has been provided to the Audit Commission for the purpose of data matching. Results of these matches will be returned by the Audit Commission in early 2013.</p> <p>Housing Benefit Matching Service (HBMS) referrals continue to be investigated - the counter fraud team has received 960 HBMS referrals in the current tax year. HBMS referrals have resulted in 2 benefit fraud prosecutions and 5 sanctions to date in 2012/13.</p>
Fraud Detection and Investigation	<p>In addition to benefit fraud investigation, the service continues to promote the use of criminal investigation techniques and standards in other areas to encourage a robust response to any fraud perpetrated against the council. Activity to date includes the following:</p> <ul style="list-style-type: none"> • Benefit Fraud - 14 people have been prosecuted for benefit fraud offences and a further 10 have received formal sanctions (cautions and administrative penalties). Benefits have been corrected in a further 50 cases. • Housing Fraud – working in conjunction with housing officers, 15 properties have been recovered in 2012/13. In addition, 2 properties were prevented from being let where the prospective tenants had provided fraudulent information in their housing applications. There are 30 current investigations in this area. City of York Council successfully prosecuted a tenant for subletting this summer. This was only the third such prosecution of this type in the

Activity	Work Completed or in Progress
	<p>country.</p> <ul style="list-style-type: none"> • Internal Fraud - the team has received 9 referrals for internal frauds to date. 5 are currently under investigation. • Social Care Fraud – fraud awareness has been delivered to frontline staff and processes setup for the referral of cases where abuse of the system is suspected. There are currently 7 ongoing investigations in this area. • Blue Badge Fraud – fraud awareness is currently being undertaken with relevant staff. In October the council prosecuted a member of the public for offences under the Road Traffic Act. • Council Tax Fraud – there are three ongoing investigations into criminal offences relating to the evasion of council tax.

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ANNEX 3**SUMMARY OF BREACHES OF FINANCIAL REGULATIONS
IDENTIFIED DURING INTERNAL AUDIT WORK COMPLETED
IN THE PERIOD**

Description of Breach	Instances
Purchase card expenditure not entered or not approved	1
Failure to obtain VAT receipts	1
Safe limits being breached	1
Lack of review of charging policy	1
Inventory records not properly maintained	1
Income not banked into the correct account	1

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**Audit and Governance Committee**

12 December 2012

Report of the Head of Internal Audit

Audit and Governance Committee Effectiveness – Self Assessment

Summary

- 1 The purpose of this report is to present the outcomes of the review of the Committee's own effectiveness.

Background

- 2 The Audit and Governance Committee represents an important element in the council's overall system of governance and internal control. The Chartered Institute of Public Finance (CIPFA) has issued guidance to local authorities on the formation and operation of audit committees. The guidance is intended to help audit committees fulfil their role effectively. An effective audit committee will help to raise the profile of internal control, risk management, value for money, efficiency and financial reporting issues as well as providing a forum to discuss issues raised by internal and external auditors.
- 3 CIPFA has recommended that audit committees in local government should periodically review their own effectiveness. At the meeting of this Committee on 2 April 2012, members agreed the approach to be taken in carrying out such a review.

Process Followed

- 4 The Committee agreed to establish a task group to undertake the review, comprising Cllr Jeffries, Cllr Brookes, Cllr Barnes and Cllr Cuthbertson. Cllr Jeffries was subsequently replaced on the task group by Cllr Cunningham-Cross.

- 5 All members of the Committee were asked to complete a self assessment questionnaire. The questionnaire asked each Member to assess how effective the Committee was in terms of discharging its role and responsibilities. This included consideration of the Committee's knowledge of each subject area and the extent to which the Committee demonstrated a leadership role in terms of corporate governance. Completed questionnaires were received from all Members of the Committee. A summary of the results was reported to the task group.
- 6 The task group met on two occasions. As well as considering the results of the questionnaire, the task group completed a self-assessment checklist based on the CIPFA guidance for audit committees.

Findings

- 7 The task group found that the Committee fulfilled its responsibilities and complied with best practice in many areas. Specific features included:
 - the existence of agreed terms of reference
 - a chair who was independent of the council's executive function
 - a programme of scheduled and regular meetings
 - regular attendance by members and relevant officers at all meetings
 - ongoing oversight of the council's corporate governance arrangements
 - review of the council's statement of accounts and the Annual Governance Statement
 - consideration of regular reports detailing the council's management of risks and the results of audit work
 - consideration of the external auditor's programme of work and the receipt of regular monitoring reports
 - consideration and approval of the annual internal audit plan

- oversight of the council's treasury management function and the arrangements to manage fraud and corruption risks.
- 8 However, the task group also identified a number of areas where the Committee's effectiveness could be improved or other changes made to support the functioning of the Committee. Details of the issues are set out in annex 1. Where appropriate, recommendations have been made to address each issue.

Council Plan

- 9 The Audit and Governance Committee forms an important component of the council's corporate governance framework. As such it supports the overall aims and priorities of the council by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

- 10 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 11 The Committee may fail to fully and properly discharge its responsibilities if it fails to function effectively.

Recommendations

- 12 Members are asked to;
- consider the findings and recommendations of the effectiveness task group.

Reason

To ensure that the Audit and Governance Committee remains effective.

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**Report
Approved**



Date

5 November
2012

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

None

Annexes

Annex 1 – Findings and recommendations from the A&G
Committee Task Group

Issues Identified by the Audit & Governance Committee's Effectiveness Task Group

The following areas / issues were identified by the task group. Suggested actions and timescales are shown to address each issue.

Ref	Issue	Proposed Action(s)	Target Date
1	The Audit and Governance Committee's existing terms of reference need to be revised in order to comply with CIPFA recommended best practice. Revised terms of reference were considered by the Committee at their meeting on 2 April 2012 but they were not approved.	The Committee should give further consideration to adopting revised terms of reference.	April 2013
2	The Council has approved the Audit and Governance Committee's terms of reference. However, the terms of reference are not formally reviewed and updated on a regular basis.	The Committee's terms of reference should be reviewed at least every 3 years. Any changes to be submitted to Full Council for approval.	April 2013 and ongoing.
3	The Audit and Governance Committee could benefit by extending its membership to include co-opted Members with relevant technical expertise and/or a thorough knowledge of corporate governance. This has been a longstanding recommendation of the committee.	The Committee should appoint one or two independent co-opted Members.	April 2013
		The requirement for members of the Committee to act independently should also be included in the training that is delivered to the Committee.	Ongoing

Ref	Issue	Proposed Action(s)	Target Date
	Some concerns were expressed regarding the need to ensure that Members are free to act independently and that influence is not placed on them to adopt a party line. The appointment of independent co-opted Member(s) may help to address this issue.		
4	<p>The role and work of the Audit and Governance Committee is not given sufficient priority and recognition by Full Council.</p> <p>The Audit and Governance Committee should work more closely with the Corporate and Scrutiny Management Committee and the Joint Standards Committee.</p>	The Committee should consider ways of making its work more prominent and of developing links with CSMC and the Joint Standards Committee - one possible option would be for the Chairs and Vice-Chairs of these committees to meet.	April 2013
5	Some concerns were expressed as to the committee's responsibilities for ensuring that the council's scrutiny arrangements are working effectively. It was noted that, if the committee identified any weaknesses in this area, they should report this in the Annual Governance Statement.	That an item be included on the agenda for a meeting of the Audit and Governance Committee to consider the effectiveness of scrutiny arrangements and governance around scrutiny.	April 2013

Ref	Issue	Proposed Action(s)	Target Date
6	It is over a year ago since the Audit and Governance Committee reported on its work and performance to Full Council.	The Committee should prepare an annual report on its work. It is suggested that the April meeting would be an opportune time to approve the report to enable its contents to reflect the work that had taken place during the municipal year.	April 2013
7	New Committee members are provided with training but more could be done to ensure that Members have the appropriate skills and knowledge to discharge their responsibilities effectively.	Induction training and an annual training update should be made compulsory for all members of the Committee (including substitutes).	Immediate
		A training needs assessment should be carried out to identify any gaps in knowledge.	December 2012
		A programme of ongoing training for Members of the Committee should be prepared.	December 2012

Ref	Issue	Proposed Action(s)	Target Date
8	<p>The Council's S151 officer regularly attends meetings of the Committee. The Committee also receives ongoing support from other officers. The Committee previously had a named officer who provided dedicated support and attended all meetings and Chair's briefings. This provided continuity. However, the post was deleted earlier in 2012 as part of the council's restructure.</p>	<p>Officers should consider how further more dedicated support for the Audit and Governance Committee can be provided in the future.</p>	December 2012
9	<p>The Audit and Governance Committee now considers the draft Annual Governance Statement (AGS) in June. The AGS is then presented again as part of the accounts in July and September. In previous years, there has occasionally been a debate around particular sentences within the AGS. When this has occurred, there has then been insufficient time to consider and make the necessary changes. The Committee therefore recognises that there is a need to raise any issues with the wording and contents of the AGS at an early stage. The new reporting</p>	<p>The Committee should be reminded to raise issues with the wording and content of the AGS at the earliest opportunity.</p>	June 2013

Ref	Issue	Proposed Action(s)	Target Date
	timetable for the annual statement of accounts should reduce the likelihood of these problems occurring in the future.		
10	<p>Risk management reports are presented regularly to the Audit and Governance Committee but they focus on specific service areas and/or projects. Whilst it is acknowledged that the full risk report is e-mailed to Members separately from the agenda papers, it was felt that more could be done to ensure that Members are made aware of the council's strategic risks and the overall risk management arrangements.</p> <p>The Chair also gave an update on the recommendation by external audit that risk might be approached in a different way. This could include a specific member-led session to identify and review key risks.</p>	<p>The Committee should give further consideration as to how to develop its awareness of risk management, including the possibility of holding sessions for Members to identify and comment on key corporate risks.</p>	February 2013
		<p>Members should be given more information about scoring systems and how the council's risks are identified and evaluated.</p>	February 2013
11	<p>The Audit and Governance Committee considers the council's annual statement of accounts. As part of the new reporting arrangements, the accounts are presented to the Committee in July</p>	<p>That officers undertake a final proof read prior to the final accounts being presented to the Committee in September.</p>	September 2013

Ref	Issue	Proposed Action(s)	Target Date
	<p>for consideration prior to audit. The accounts are then presented again for approval in September.</p> <p>However, Members noted that errors in wording and grammar are not necessarily identified during proof reading prior to the accounts being presented.</p>		
12	<p>CIPFA briefing papers are circulated on an occasional basis. Members would however benefit from more regular technical updates.</p>	<p>Copies of CIPFA and other technical guidance should be circulated to Members of the Audit and Governance Committee on a more regular basis.</p>	<p>Immediate</p>
13	<p>Opportunities currently exist for Members of the Committee to meet with the Head of Internal Audit and the External Auditor in private. However, it would be helpful for a private meeting with both to be scheduled into the Committee's calendar of meetings.</p>	<p>To include private meetings with both the External Auditor and the Head of Internal Audit in the calendar of meetings.</p>	<p>February 2013</p>



Audit & Governance**12 December 2012**

Report of the Cabinet Member for Corporate Services

Scrutiny of Treasury Management Monitor 2 Mid year Review and Prudential Indicators 2012/13**Summary**

1. The Audit & Governance Committee are responsible for ensuring effective scrutiny of the treasury management strategy and policies, as stated in the Treasury Management Strategy 2012/13 approved by full Council on 23 February 2012. The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (“the Code”) stipulates that
 - There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved,
 - Those charged with governance are also personally responsible for ensuring they have the necessary skills and training
2. Attached at Appendix A is the Treasury Management Monitor 2 Mid Year Review and Prudential Indicators 2012/13 report. This information provides Members with an update of treasury management activity for the first six months of 2012/13.

Background

3. The report reviews the economic market conditions in which the treasury management activities of the council are currently operating. It highlights that the environment in which treasury management operates remains volatile due to the continued economic uncertainty. The report states that following the Bank of England Inflation Report for August 2012, the Council’s Treasury Management Advisers - Sector, forecast the first rise in Bank Rate to be in Q4 2014.
4. However, following the issue of the latest Bank of England Inflation Report for November 2012, Sector has undertaken a revision of its interest rate

forecasts. In the August Inflation Report, the Bank changed its position significantly in as much as it markedly downgraded its forecasts for the strength and speed of recovery in GDP growth whereas previously it had consistently been forecasting a strong recovery to over 3% p.a. In its November Report, the Bank has continued this shift towards pessimism in the speed and strength of recovery; it is now only forecasting growth at around 1% in 2013 and 2% in 2014.

5. The updated Sector interest rate forecast is based around an expectation that there will not be a disorderly break-up of the Eurozone, but rather a managed, albeit painful, resolution of the current crisis. Under this assumed scenario, growth within the Eurozone will be depressed for the next couple of years and this would also lower UK growth as the EU is our biggest export market. These developments have pushed back the expectations of the timing of the eventual start of increases in Bank Rate and the expected eventual rise in gilt yields and PWLB rates. Consequently, Sector has pushed back the first rise in Bank Rate, from Q4 2014 to Q1 2015 as well as the pace of rises in gilt yields.
6. The position of short term interest rates for investment opportunities continues to remain low and the counterparty list, where the council's surplus funds can be invested, is limited due to the uncertainty surrounding the euro zone and the impact on world market. The limited counterparty list, to high credit rated institutions, ensures the security of the Council's capital. The secondary priority being on interest rate return predicted at 1.5% for 2012/13. Further details on the Council's investments are included in Appendix A paragraphs 8 to 16.
7. Borrowing rates are also at historically low levels and Appendix A, paragraph 21 details that no loans have been taken in 2012/13. This is due to loan rates remaining higher than investment rates and also the interest rate forecast predicting that borrowing rates will continue to stay low. In addition at Appendix A, paragraph 25 explains that the government have also introduced "Certainty Rates" which is where Public Works Loan Board borrowing rates can be taken at 20 basis points lower from 1 November 2012. This clearly also reduces the borrowing rates available so opportunity will remain in the future to take loans at favourable rates.
8. The information provided in the paragraphs above is a brief summary of the "Treasury Management Monitor 2 Mid Year Review and Prudential Indicators 2012/13" report at Appendix A for scrutiny by Audit & Governance Committee Members.

Consultation

9. Not applicable

Options

10. It is a statutory requirement under Local Government Act 2003 for the council to operate in accordance with the CIPFA prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice “the Code”. The revised “code” was originally approved at full Council on 26 February 2010. At this time the Council also approved the Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15 which stated that “The Treasury Management Reporting arrangements set out in paragraph 16, table 1, as described by “the Code” and the terms of reference in the Constitution be amended to include that Audit & Governance Committee scrutinise the Treasury Management Strategy and Monitoring reports.” No alternative options are available.

Council Plan

11. Treasury management is an integral part of the council’s finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council’s priority areas as set out in the council plan. It therefore underpins all of the council’s aims.

Implications

12. The implications are
- Financial – the security of the Council’s capital funds is a priority, maximising returns on investments is still key along with minimising the finance costs of debt.
 - Human Resources - there are no human resource implications to this report.
 - Equalities - there are no equality implications to this report.
 - Legal - there are no legal implications to this report.
 - Crime and Disorder - there are no crime and disorder implications to this report.
 - Information Technology - there are no information technology implications to this report.
 - Property –there are no property implications to this report.
 - Other – there are no other implications to this report.

Risk Management

13. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendations

14. (a) Audit & Governance Committee note and scrutinise the Treasury Management Monitor 2 and Prudential Indicators 2012/13 at Appendix A
- (b) Audit & Governance Committee confirm their requirement for a training session to be undertaken by offices on (i) an overview of Treasury Management or (ii) a specific area of Treasury Management

Reason: That those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

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Report approved Date 12/12/12

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All**

For further information please contact the author of this report

Background Working Papers

Local Government Act 2003 and amendments
 CIPFA Prudential Code
 CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (“the Code”)
 Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17

Annexes

1. Appendix A - Treasury Management Monitor 2 Mid Year Review and Prudential Indicators 2012/13
2. Annex A – Prudential Indicators 2012/13

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Cabinet **6 November 2012**
Report of the Cabinet Member for Corporate Services

Treasury Management Monitor 2 Mid Year review and Prudential Indicators 2012/13

Summary

1. This Council is required through regulations issued under the Local Government Act 2003 and the revised 2011 CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management (as revised) to provide members with an update on treasury management activities at least twice a year.
2. This report therefore ensures this council is implementing best practice in accordance with the Code. It updates on the Treasury Management activities for the period 1 April 2012 to 30 September 2012 and reviews:
 - Economic Background
 - Annual Investment Strategy
 - Investment portfolio
 - Borrowing portfolio
 - Compliance with Prudential Indicators

Background

3. The Council's Treasury Management function is responsible for the effective management of the Council's investments, cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Economic Background and Analysis

4. The Council's treasury management activities have operated within the following economic background:

- a) Indicators suggest that economic growth returned after three quarters of recession, with GDP (Gross Domestic product) in September increasing by 1% on the previous quarter. Over the last year the economy has remained flat.
 - b) Retail sales held up well and spending off the high street strengthened;
 - c) The labour market continued to recover, with most of the rise in employment being driven by growing self and part-time employment, rather than full-time. Pay growth has remained modest. Annual growth of overall average earnings ticked up from 1.3% in June to 1.4% in July. Given the rate of inflation over this period, real pay continued to fall on an annual basis
 - d) Annual inflation CPI (Consumer Prices Index) stands at 2.2 per cent in September 2012, down from 2.5 per cent in August. This is the slowest rate of inflation since November 2009, when it was 1.9 per cent. Further falls in inflation over the next few months look unlikely as a result of the recent increase in commodity prices – oil and agriculture.
 - e) The MPC (Monetary Policy Committee) announced additional asset purchase of £50bn in July over the following four months. This would take the total amount of Quantitative Easing to £375bn. Therefore, interest rate markets are pricing in a decent chance of a cut in official interest rates within the next few months, but Mervyn King (the Governor of the bank of England) is opposed to this.
 - f) UK equity and government bond prices rose;
 - g) The US economy's recovery has remained fairly weak. In the Eurozone, market sentiment improved following the ECB's pledge to buy "unlimited" quantities of peripheral government's sovereign debt in early September, provided that those countries have formally requested a bail out The US economy continued to recover, but at a disappointingly slow pace.
5. From the economic uncertainty described above the environment in which treasury management operates remains volatile. Sector – the Council's treasury management advisers – have undertaken a review of its interest rate forecasts following the Bank of England Inflation Report for August 2012, which again pushed back the timing of growth and the rate at which inflation will fall back towards the target rate of 2%. Table 1 is Sector's Interest Rate forecast:

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%
5yr PWLB rate	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.30%
10yr PWLB rate	2.50%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.20%	3.30%
25yr PWLB rate	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%
50yr PWLB rate	3.90%	3.90%	3.90%	4.00%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%

Table 1: Sector's – Treasury Management Advisers – Interest Rate Forecast

6. The table highlights the first rise in Bank Rate is forecast to be in Q4 2014. For comparison purposes in January 2012, it was forecast that the Bank Rate would rise in Q1 2013. The current economic environment remains volatile with the uncertainty in the Euro zone and slow growth across the globe. PWLB (Public Works Loans Board) government rates for local authorities are forecast to remain low, rising in 2013 on a gradual upward trend.
7. Figure 1 below shows the actual and projection of the bank base rate, which has remained at historically low levels since April 2009. Sector forecast bank base rate in August 2012 is compared to their revised forecast in January 2012. Other economists latest forecast are also shown for August 2012. The graph highlights the continued delay in the expectation of the increase in the Bank Base rate which is as a result of the decision to expand quantitative easing (now at £375bn) and continued low growth prospects.

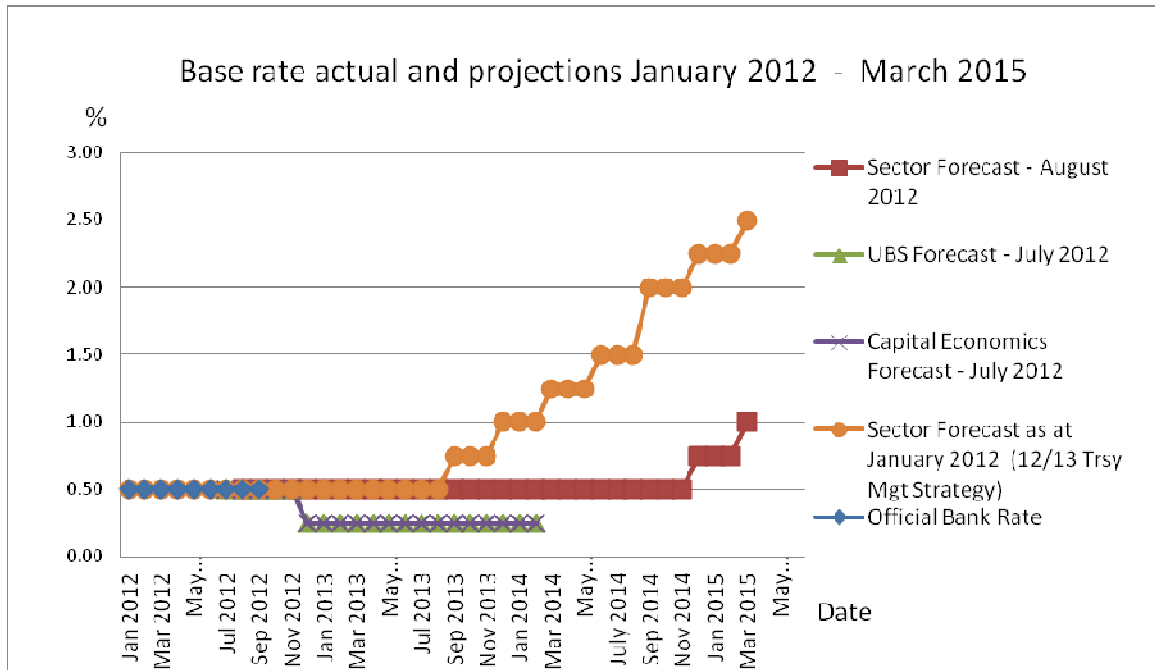


Figure 1: Base Rate 2012 to 2015 - latest forecast August 2012

Annual Investment Strategy

8. Treasury Management Strategy Statement for 2012/13 was approved by Council on 23 February 2012. The Council's Annual Investment Strategy, which is incorporated in the Strategy, outlines the Council's investment priorities as follows:
- security of capital
 - liquidity
 - yield

The Council will aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity.

9. Investments are placed with highly credit rated financial institutions using the creditworthiness matrices described in the Treasury Management Strategy, which includes sovereign credit ratings from the rating agencies and the credit default swap (CDS) overlay information provided by Sector.
10. The current economic climate and the heightened credit concerns it is considered appropriate to keep investments short with a maximum duration of 3 months. This applies to all entities

in which the Council is considering investing, except for the following institutions:

- (a) UK Government and related entities such as Local Authorities – suggested limit remains at 5 years.
- (b) UK semi-nationalised institutions e.g. Lloyds / RBS – suggested limit remains at 1 year. UK ownership of these entities provides comfort to investors.
- (c) Money market Funds – suggested limit remains at 1 year.

11. Investments held during the first six months of 2012/13, in accordance with Sector's Creditworthiness matrices and changes to Fitch and Moody's credit ratings, remained within the Council's approved credit criteria limits contained in the Annual Investment Strategy.

Investment Portfolio

12. Investment rates available in the market have continued at historical low levels. The average level of funds available for investment purposes in the six months of 2012/13 was £43.418m. The level of funds available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants, borrowing and progress on the Capital Programme. These funds are therefore available on a temporary basis dependant on cash flow movement.
13. There are no funds currently invested for periods of a year or more due to the limited institutions available for investment in the current market environment; in accordance with the credit criteria policy.
14. Investment activity during the first six months of 2012/13 earned a rate of return of 1.50% (compared to 1.50% 1st 6 months 11/12). This is 1.08% (compared to 1.03% 1st 6 months 11/12) better than the average 7 day London Inter-Bank Deposit rate (LIBID) of 0.43% (compared to 0.47% 1st 6 months 11/12) and 1.00% (compared to 1.00% 1st 6 months 11/12) higher than the average base rate for the period of 0.50%. The interest earned to date in 2012/13 is in line with the treasury management budget.
15. Figure 2 shows the interest rates available on the market between 7 days and 1 year and also the rate of return that the Council has achieved for the first six months of 2012/13. It

shows that favourable / competitive interest rates have been obtained for investments whilst ensuring the required liquidity and security of funds for the Council.

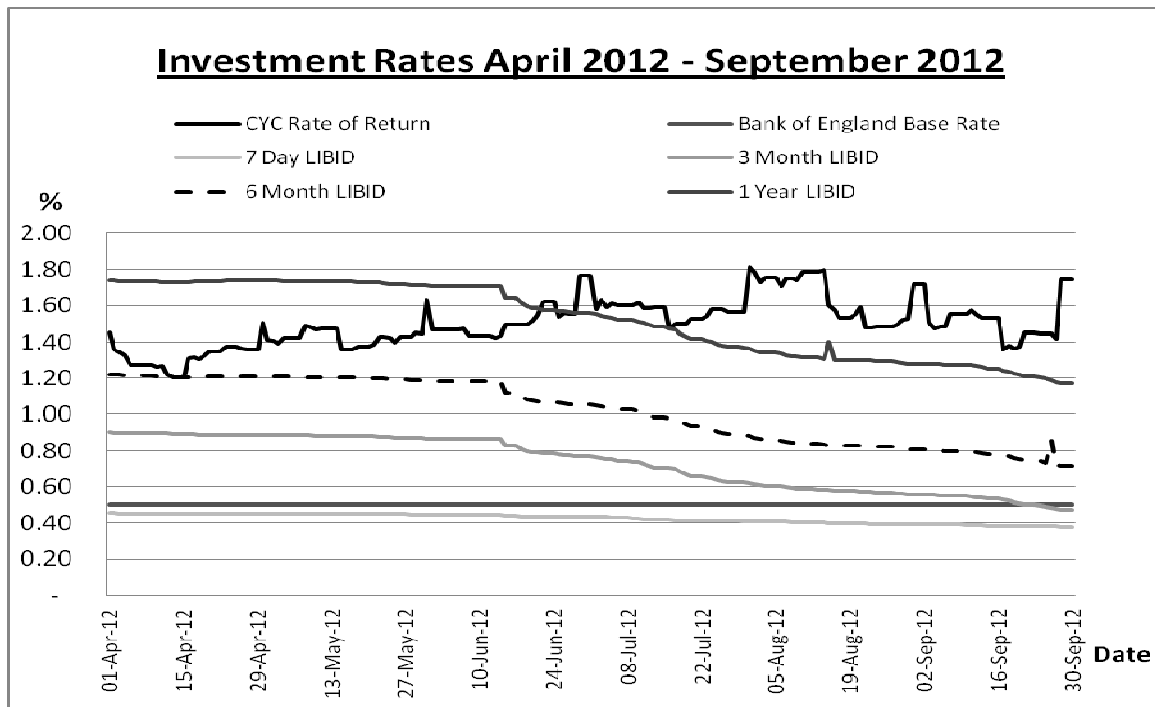


Figure 2: CYC rate of return on Investments vs Money Market Rates

16. The higher rate of return on investment activity compared to the average LIBID rate and base rate for the period is due to the treasury team continuing to monitor the market and taking advantage of opportunities when they become available, whilst ensuring the security of the council's funds. Investments in the portfolio are diversified and include fixed deposits in short term call accounts, fixed term investments and money market funds (MMF). This can be seen in Figure 3.

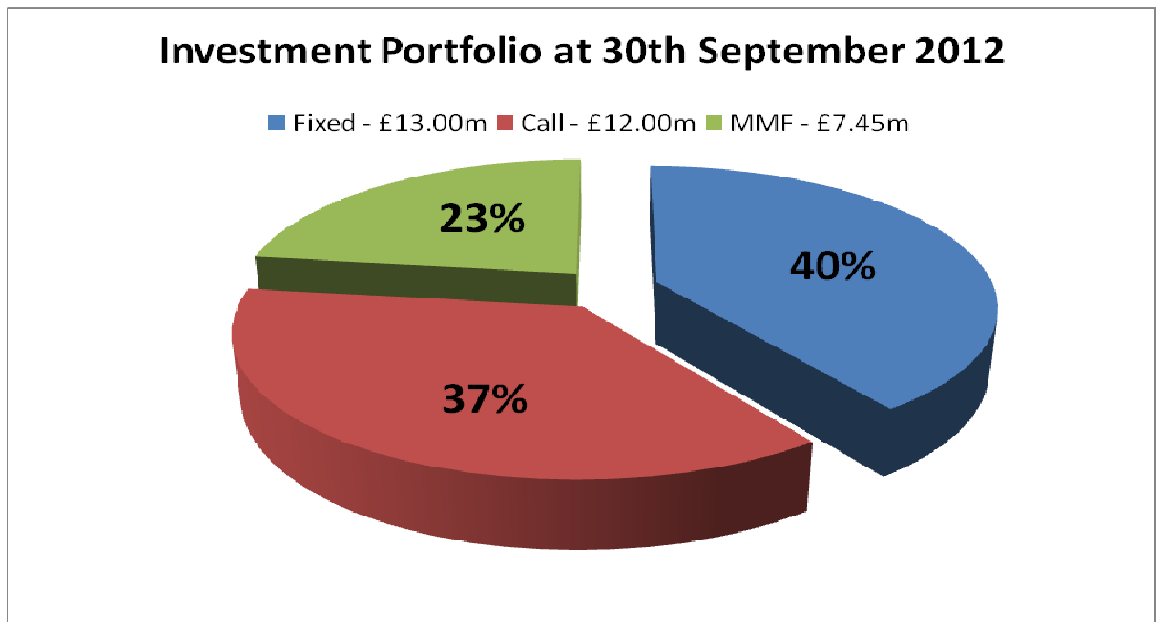


Figure 3 Diversified Investment Portfolio at 30 September 2012

Borrowing Portfolio

17. The Council undertakes long term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured against its asset base.
18. The level of borrowing taken by the Council is determined by the Capital Finance Requirement (the Councils underlying need to borrow for capital expenditure purposes). Borrowing needs to be affordable, sustainable and prudent and the treasury management budget supports the borrowing finance costs in the longer term.
19. Under regulation, the Council can borrow in advance of need in line with its future borrowing requirements in accordance with the Capital Financing Requirement. This Council has not borrowed in advance of need during the quarter ended 30th September 2012 and has no intention to borrow in advance in 2012/13.
20. On the reverse side, the Council's level of borrowing can also be below the Capital Financing Requirement. This would mean that instead of increasing the Council's level of borrowing, surplus funds held for investment purposes would be utilised instead, decreasing the level of surplus funds being available for investment.

21. In the current interest rate environment where investment rates are below borrowing rates consideration is given to the value of taking borrowing or whether it is better for the council to keep investment balances lower. To date no external borrowing has occurred in 2012/13.
22. The interest rate target level for borrowing in the Treasury Management Strategy for 2012/13, approved by Council 23 February 2012, was 4.5% to allow for external borrowing over different time periods. The revised interest rate forecast in table 1 above, shows that borrowing rates in the first six months of 2012/13 have fallen across the board. Table 2 shows Government Public Work Loans Board (PWLB) borrowing interest rates across the interest rate yield curve for the quarter to 30 September 2012.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.00%	1.52%	2.52%	3.81%	4.02%
Date	02/08/12	23/07/12	23/07/12	18/07/12	18/07/12
High	1.21%	1.89%	2.91%	4.15%	4.32%
Date	02/07/12	17/09/12	17/09/12	17/09/12	17/09/12
Average	1.10%	1.68%	2.68%	3.94%	4.14%

Table 2 – PWLB Borrowing Rates - quarter ended 30 September 2012

23. Long-term rates (30 years and above) hit their lows for the current year on 1st June 2012 (3.96% for 50 year PWLB). Rates at the short/medium term fell even lower into July and reached their low point on 23rd July amidst growing expectations of UK bank rates remaining lower for longer and falling inflation expectations.
24. Overall, PWLB borrowing rates have risen since June/July and are currently 20-30 basis points above the earlier lows, but still historically low. This slight rise is due to a reduced level of perceived market risk leading to an outflow from UK gilts (selling gilts) into equities (buying equities). This results in a slight rise in interest rates.
25. There is further opportunity for lower borrowing rates to be achieved in Local Authorities, as in the March budget 2012 the government announced that they would introduce a 20 basis points discount on loans from the Public Work Loans Board. On

2 August 2012 the Treasury revealed details of the ‘certainty rate’ which will enable local authorities to access this cheaper borrowing. Authorities who wish to access this reduced rate were required by 17th September 2012 to complete a form detailing the amount of borrowing that authorities would require in accordance with their capital programme. On 12 October, the Government listed all those authorities that were eligible to receive the reduce rate of interest on borrowing. City of York Council have been included on this list.

26. Figure 4 shows the fluctuation in PWLB rates since October 2010 when the Government’s Comprehensive Spending Review increased rates to 1% above gilt yields. It indicates that all interest rates have generally been on a downward trend during the 2012/13 and continue to remain at historical low levels. The yellow circles highlight when new borrowing was taken in 2011/12, no borrowing has occurred in 2012/13. In future, due to the ‘certainty rate’, PWLB interest rates available will be 20 basis points lower and will be illustrate on the graph in future reports.

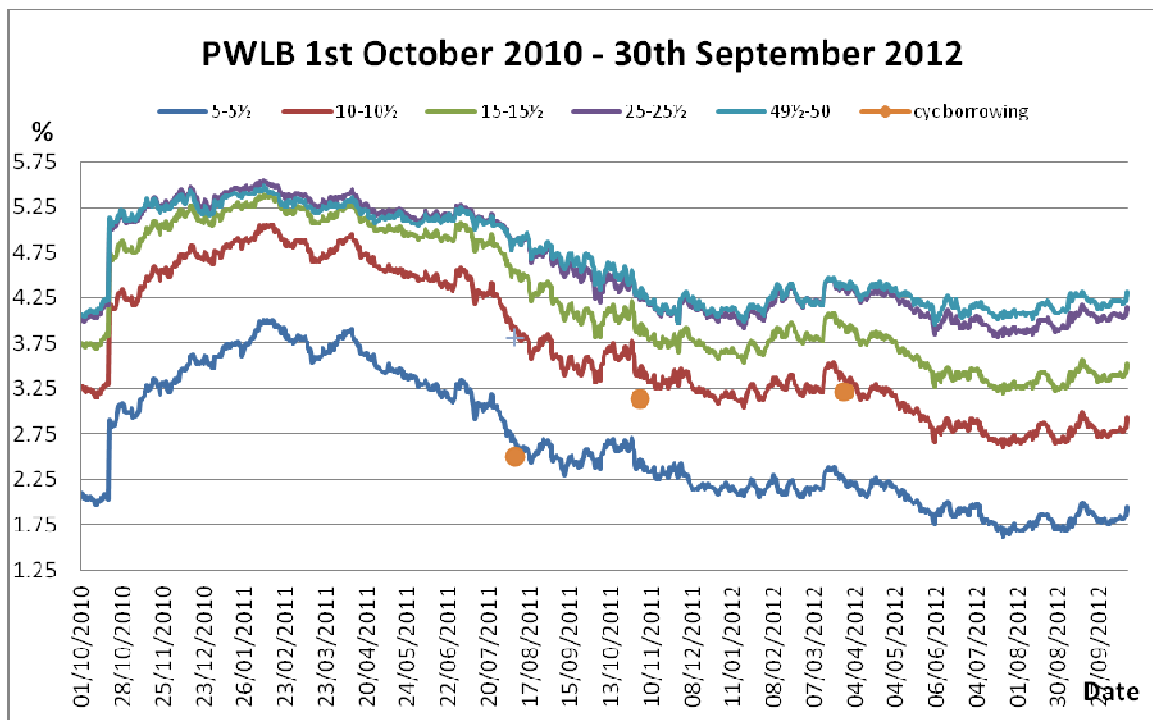


Figure 4 – PWLB rates vs CYC Borrowing Levels

27. The Councils long-term borrowing started the year at a level of £261.6m. This is split between the General Fund at £121.3m and the HRA at £140.3m. £3m loan was repaid in May 2012 in line with its maturity date, split between the General Fund and

HRA at £2.6m and £0.4m respectively. No new borrowing has been taken in the first six months of 12/13.

28. It is not anticipated that borrowing will be undertaken during this financial year as borrowing rates remain higher than investment rates, even with the PWLB ‘certainty rate’. That said, borrowing rates are still at historically low levels and therefore rates will continue to be monitored in this volatile opportunistic environment. If rates forecast change and it is anticipated that borrowing rates are on the increase, then borrowing may occur to take advantage of favourable rates.
29. Figure 5 illustrates the 2012/13 maturity profile of the Council’s debt portfolio as at 30 September 2012. This is split between the loans held by the General Fund and the loans held by the HRA, which is required under the Self Financing regulation. These regulations came in to force on 1 April 2012. The maturity profile shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

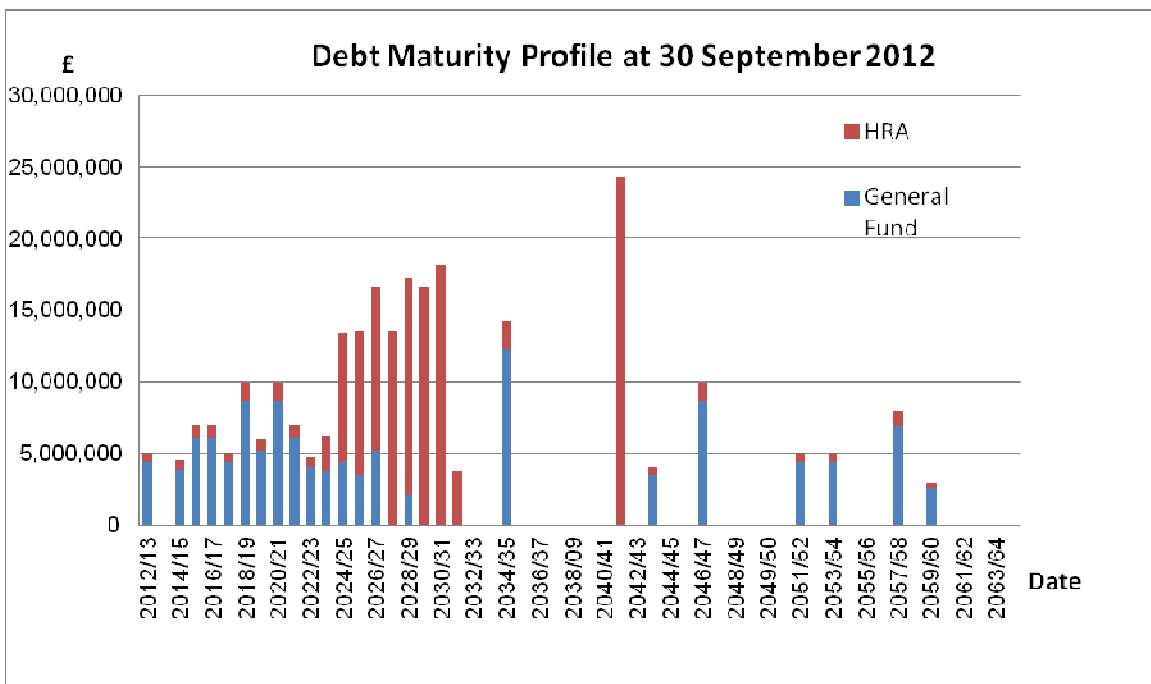


Figure 5 – Debt Maturity Profile 12/13

Compliance with Prudential Indicators

30. The Prudential Indicators for 2012/13, included in the Treasury Management Strategy Statement are based on the requirements

of the Council's capital programme and approved at Council on 23 February 2012.

31. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits" included in the Prudential Indicators. The monitoring of the Prudential Indicators is attached at Annex A.
32. During the financial year 2012/13 to date, the Council has operated within the treasury limits and Prudential Indicators set out.

Consultation

33. The report shows the six month position of the treasury management portfolio in 2012/13. The treasury management budget was set in light of the council's expenditure plans and the wider economic market conditions, based on advice from Sector - the Council's Treasury Management advisers.

Council Plan

34. The Council Plan has five priorities which all require a budget to achieve. The treasury management function aims to achieve the optimum return on investments commensurate with the proper levels of security, and endeavours to minimise the interest payable by the Council on its debt structure. It thereby contributes to all Council Plan priorities.

Human Resources Implications

35. There are no HR implications as a result of this report.

Equalities

36. There are no equalities implications as a result of this report.

Legal Implications

37. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146),

which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the *Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008* (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Crime and Disorder Implications

38. There are no crime and disorder implications as a result of this report.

Information Technology Implications

39. There are no IT implications as a result of this report.

Property Implications

40. There are no property implications as a result of this report.

Risk Management

41. The Treasury Management function is a high-risk area because of the level of large money transactions that take place. As a result of this there are procedures set out for day to day treasury management operations that aim to reduce the risk associated with high volume high value transactions. These are detailed in the Treasury Management Strategy Statement at the start of each financial year.

Recommendations

42. Members are required, in accordance with the Local Government Act 2003, to:

- Note the treasury management activities in 2012/13
- Note the movements in the Prudential Indicators at Annex A

Reason – to ensure the continued performance of the Council's Treasury Management function.

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Report Approved ✓ Date 06/11/12

Wards Affected:

All

Specialist Implication Officers:

None

For further information please contact the author of the report

Background Papers

Cash-flow Model 12/13, Investment Register 12/13, PWLB Debt Register, Capital Financing Requirement 12/13, Venture Fund 12/13, Treasury Management budget 12/13.

Annexes

Annex A – Prudential Indicators 2012/13

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Prudential Indicators 2012/13 Monitor 2

Annex A

PRUDENTIAL INDICATORS			2012/13 Original Budget	2012/13 Monitor 2
1)	Capital Expenditure To allow the authority to plan for capital financing as a result of the capital programme. To enable the monitoring of capital budgets to ensure they remain within budget.	Non - HRA	£M 67.6	£M 60.3
		HRA	7.8	8.7
		TOTAL	75.4	69.0
2)	Ratio of financing costs to net revenue stream This indicator estimates the cost of borrowing in relation to the net cost of Council services to be met from government grant and council taxpayers. In the case of the HRA the net revenue stream is the income from Rents and Subsidy.	Non - HRA	9.2%	9.7%
		HRA	2.3%	2.1%
3a)	Incremental impact of capital investment decisions - Council Tax Shows the actual impact of capital investment decisions on council tax. The impact on council tax is a fundamental indicator of affordability for the Council to consider when setting forward plans. The figure relates to how much of the increase in council tax is used in financing the capital programme and any related revenue implications that flow from it.		£ p	£ p
		Increase in Council Tax (band D) per annum	23.89	18.27
3b)	Incremental impact of capital investment decisions - Hsg Rents Shows the actual impact of capital investment decisions on HRA rent. For CYC, the HRA planned capital spend is based on the government's approved borrowing limit so there is no impact on HRA rents.		£ p	£ p
		Increase in average housing rent per week	0.00	0.00

4)	<p>Net Borrowing not exceed the CFR</p> <p>To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose and so not exceed the CFR.</p>		<p>£M</p> <p>258.5</p>	<p>£M</p> <p>226.2</p>
5)	<p>Capital Financing Requirement as at 31 March</p> <p>Indicates the Council's underlying need to borrow money for capital purposes. The majority of the capital programme is funded through government support, government grant or the use of capital receipts. The use of borrowing increases the CFR.</p>	<p>Non - HRA</p> <p>HRA</p> <p>TOTAL</p>	<p>£M</p> <p>168.6</p> <p>140.4</p> <p>309.0</p>	<p>£M</p> <p>179.2</p> <p>140.4</p> <p>319.6</p>
6a)	<p>Authorised Limit for external debt -</p> <p>The authorised limit is a level set above the operational boundary in acceptance that the operational boundary may well be breached because of cash flows. It represents an absolute maximum level of debt that could be sustained for only a short period of time. The council sets an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long-term liabilities for 3 financial years.</p>	<p>borrowing</p> <p>other long term liabilities</p> <p>TOTAL</p>	<p>£M</p> <p>337.9</p> <p>20.0</p> <p>357.9</p>	<p>£M</p> <p>337.9</p> <p>20.0</p> <p>357.9</p>
6b)	<p>Operational Boundary for external debt -</p> <p>The operational boundary is a measure of the most likely, prudent, level of debt. It takes account of risk</p>	<p>borrowing</p> <p>other long term liabilities</p>	<p>£M</p> <p>307.9</p> <p>20.0</p>	<p>£M</p> <p>307.9</p> <p>20.0</p>

<p>management and analysis to arrive at the maximum level of debt projected as part of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self-imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.</p>	TOTAL	327.9	327.9
<p>7) Adoption of the CIPFA Code of Practice for Treasury Management in Public Services Ensuring Treasury Management (TM) Practices remain in line with the Code of Practice.</p>	TM Policy Statement	✓	✓
	12 TM Practices	✓	✓
	Policy Placed Before Council	✓	✓
	Annual Review Undertaken	✓	✓
	A&G named as specified Scrutiny body	✓	✓
<p>8a) Upper limit for fixed interest rate exposure The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.</p>	Net interest re fixed rate borrowing / investments Actual Net interest re fixed rate borrowing / investments	104%	109%
<p>8b) Upper limit for variable rate exposure The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly</p>	Net interest re variable rate borrowing / investments	-4%	-9%

	exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.	Actual Net interest re variable rate borrowing / investments		
9)	Upper limit for total principal sums invested for over 364 days		£M	£M
	To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long-term loans mature in different periods thus spreading the risk.		10.0	10.0
		Investments over 364 days	£0	£0
10)	Maturity structure of new fixed rate borrowing		Upper Limit	Actual £M
	The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.			258.6
		under 12 months	30%	2%
		12 months & within 24 months	30%	3%
		24 months & within 5 years	40%	7%
		5 years & within 10 years	40%	15%
		10 years & and above	90%	74%

Glossary Of Abbreviations

HRA - Housing Revenue Account

1. In accordance with the Prudential Code, the Prudential Indicators set by full Council on 23 February 2012 for the financial year 2012/13 must be monitored and reported at Outturn. The Prudential Indicators are detailed above and the key points are explained below:

2. **Indicator 1 - Capital Expenditure:** The capital programme expenditure for 2012/13 was originally estimated at £65.1m and at monitor 2 had increased to £69.0m. The Capital Programme 2012/13 Monitor 2 report has further detail with regards to this movement. In brief, new borrowing schemes of £4.1m funded from existing revenue budgets increased capital expenditure and also a number of schemes were re-profiled to future years.
2. **Indicator 2 – Ratio of Finance Costs to Net revenue Stream:** This indicator represents how much borrowing (where the finance costs are not supported by government grant) for the capital programme, will cost as a percentage of the net revenue stream of the Council. The General Fund indicator at Monitor 2 is 9.7% compared to a budgeted level of 9.2%, with the marginal increase due to increased finance costs, as a result of increased provision to repay borrowing as defined in statute. The Housing Revenue Account (HRA) version of the indicator is 2.1% compared to the budgeted level of 2.3%, the difference is mainly due to a higher HRA balance which earned investment income than was originally estimated. Under the new self financing regulations, the increased finance costs to service the additional £121.1m borrowing taken are covered by the increased housing rent collected by the authority. In the past this rent was always collected, rent has not risen, but under the housing subsidy scheme it would have been paid to the Government.
3. **Indicator 3 (a) & (b) - Incremental Impact of Capital Investment Decisions on the Level of Council Tax (3a) and Housing Rents (3b):** This indicator shows the impact of capital investment decision on the bottom line level of Council Tax. The Council can fund its discretionary capital programme from two main sources, from borrowing or using capital receipts from the sale of surplus assets. The Council's policy is to use capital receipts to fund the Capital programme, where possible. However in the current economic environment with reduced capital receipts there is the requirement to use borrowing to support the capital programme, which has an impact on Council Tax through the revenue cost of financing the borrowing. The borrowing is not taken unless it is affordable, sustainable and prudent and can be supported by an existing budget. For the General Fund at Monitor 2 the increase in Council tax (band D) per annum is £18.27 compared to £23.89 estimated at budget. The reduction is in line with no borrowing occurring in the first six months for 2012/13.
4. **Indicator 4 – Net Borrowing not exceed the CFR:** In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12. The table highlights the Council's net borrowing position against the CFR, it confirms that no borrowing occurred in advance of need and the net borrowing position was below the CFR.

5. **Indicator 5 - Capital Financing Requirement (CFR):** The CFR at Monitor 2 is £319.6m, higher than the CFR originally budgeted at £3.09.0m. This is as a result of less capital receipts / grants / contributions being used to fund the capital programme and new schemes (as mentioned in paragraph 2 Indicator 1 above) being funded from borrowing. The CFR represents the Council's underlying need to borrow for all capital investment over time. The CFR represents the capital expenditure (which has not yet been paid for by revenue or other resources) which is required to be funded by borrowing. Under Statute, the council is permitted to borrow to fund capital expenditure. When borrowing is undertaken it is not taken for a specific capital scheme but rather to fund the council's capital financing requirement as a whole.
6. **Indicator 6(a) - Authorised Limit:** The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level, which is approved at Full Council every year. The table confirms at Monitor 2 that the Council has maintained gross borrowing within its authorised limit of £357.9m. Borrowing is currently £258.6m, the headroom available within this limit allows the Council the ability to borrow in advance of need in accordance with its 3 year forecast Capital programme.
7. **Indicator 6(b) – Operational Boundary:** This is the estimated borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. At Monitor 2 the actual borrowing level was below the operational boundary as no borrowing has been taken, even though this could have occurred in line with the Capital Financing Requirement of the capital programme. This was in accordance with the strategy to hold off borrowing due to borrowing rates being much higher than investment rates.
8. **Indicator 7 - Adoption of the CIPFA Code of Practice in Treasury Management:** In accordance with the Prudential Code, the Council has adopted the CIPFA Treasury Management in the Public Services Code of Practice "the Code" prior to the beginning of the financial year. The table shows the code has been adhered to.
9. **Indicator 8(a) & (b) - Upper Limit for Fixed and Variable Interest rate Exposure:** Interest rate exposure on debt is positive due to it being in relation to interest paid and on investments is negative as it is interest being received. When the variable and fixed interest rates are totalled, it will always be 100%. The majority of the interest received for the Council relates to variable rated investments, where as the interest paid on debt is fixed. The limits set in the budget are similar to those at Monitor 2 at 109% for fixed interest rate exposure and -9% for variable interest rate exposure.

- 10. Indicator 9 - Upper Limit for total principal sums invested for over 364 days:** This has been set at £10m and is approximately 25% of the average portfolio throughout the year. To date no investments for longer than 364 days have been taken due to the credit ratings assigned to counterparties. In the current environment it is viewed as high risk to have long term exposure. The banks which are nationalised have the backing of government and therefore investment up to 1 year are considered.
- 11. Indicator 10 - Maturity Structure of Fixed rate Borrowing:** The borrowing portfolio is spread across different time periods to ensure that the Council is not exposed to the requirement to take new borrowing in any one year and be exposed to interest rates in any one year. At Monitor 2 the borrowing portfolio maturity profile was within the limits set as represented in the table.

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Audit & Governance**12 December 2012**

Report of the Cabinet Member for Corporate Services

Annual Financial Report Update 2012/13**Summary**

1. The purpose of the report is to update Members on the approach being taken for the Annual Financial Report (Statement of Accounts) for 2012/13 and also responds to the comments made in the Annual Governance Report (AGR).
2. The AGR was prepared by the external auditors - Audit Commission – at the end of the 2011/12 Annual Financial Report process in response to the Final Accounts and was reported to the Audit & Governance Committee on 27 September 2012.
3. In 2011/12 the AGR referred to future requirements to be adopted for the Council's Fixed Asset Register, specific accounting treatment in relation to cash and bank and the date schools balances are reconciled to. These three areas are reviewed in the body of the report, along with other updates.

Background

4. Preparation of the Council's Annual Financial report 2012/13 has commenced with the publication of CIPFA's (Chartered Institute of Public Finance & Accountancy) code of practice on local authority accounting in the UK 2012/13 in November 2012. Only minor accounting changes have occurred in the code with comparison to last year.
5. The 'Code' has confirmed that changes to measure transport infrastructure assets on a depreciated replacement cost (DRC) basis rather than historic cost will be revisited by CIPFA following the consideration of the progress being made by local authorities preparing to account for infrastructure assets under this revised DRC valuation method. This method will provide for infrastructure assets on a 'valuation' basis potentially increasing the value of infrastructure assets held within the accounts rather than at historic cost basis.
6. The 2012/13 'Code' incorporates the new requirements for the Housing Revenue Accountant (HRA) following the new HRA self financing reform

introduced from 1 April 2012 but further guidance is awaited for the accounting treatment, anticipated to be included in an update 'Code' in early 2013.

7. In the AGR, the Audit Commission communicated to Audit & Governance Committee findings from their audit on matters that were significant to Audit Committee's oversight of the Council's financial reporting process. These included matters in relation to the Fixed Asset Register and Cash and Bank.
8. The Fixed Asset Register is currently being improved by moving it from a spreadsheet database to the CIPFA Asset Net software system. This data base will streamline the FAR process, improve efficiency and ensure that the required progress is made in implementing the financial reporting standard IAS 16 which covers the componentisation of assets. CYC is on target to componentise all assets over a 5 year period by 2014/15 and ensures assets which are revalued, acquired or enhanced in any one year are subjected to the componentisation rules unless an additional component is not material and does not change the amount of depreciation that would be charged to that asset.
9. With regards to Cash and Bank, the AGR 2011/12 noted two points. Firstly that Cash and Bank balances at year end included unallocated cash not processed through the finance ledger system after the year end. It recognises that this is an established accounting treatment at many local authorities, but does state that this treatment does overstate cash balances and understate debtors at year end. This will be reviewed for 2012/13 and the correct position to state cash balances and debtors will be recorded.
10. The second point in relation to Cash and Bank is that "Schools balances were reconciled at 23 March 2012 rather than 31 March 2012". In the minutes of Audit & Governance Committee on 27 September 2012 Members commented that 'in the future, schools' accounts should perhaps be reconciled on 31 March'. This has been considered but the preferred option is that for 2012/13 the schools bank accounts will again be reconciled a week early on 22 March 2013. It is necessary for the schools to close a week early at 22 March 2013 as it takes them a week to finalise their position and then the school holiday is from 29 March 13 to 15 April 2013. If the accounts were closed at 31 March 2013, then the school would not complete their final position until 19 April 2013 – this is 3 weeks after they would if they close a week early and would place considerable pressure on the close down timetable.

11. A review at the end of the financial year will be carried out to ensure that any material items that occur between 22 March 2013 and 31 March 2013 are included and consolidated into the accounts. In discussion with the external auditors, they understand the logistical difficulties explained above and have agreed in principle with the suggestion that as part of the closedown process the central finance team should carry out its own review to confirm that any material movements between 22 March 2013 and 31 March 2013 are reflected in the accounts. External audit will also address this by requesting bank letters for a sample of schools accounts in 2012/13, and then compare them to the bank reconciliation balance, to provide additional assurance about the year end.

Consultation

12. The external auditors for 2012/13 are Mazars and the approaches taken to the Annual Financial Report for 2012/13 detailed in this report have been discussed with them. At this stage Mazars have provided a positive opinion but it should be noted that until the Annual Financial report is finalised and audited, the external auditor has the right to revise their judgement

Options

13. The requirements for the accounting treatment of the Fixed Asset Register and the position of debtors and cash for the bank reconciliation are agreed by Council officers and the external auditors, there is only one option. There are 2 options regarding the reconciliation of school bank accounts, either (i) reconcile school bank accounts on 31 March 2013, thereby potentially causing a delay to the final accounts process by 3 weeks or (ii) reconcile the school bank accounts 1 week early 22 March 2013 to ensure the final accounts deadline of 30 June 2013 can be adhered to and ensure that a materiality check is carried out by CYC officers for school bank accounts between 22 March 13 and 31 March 2013.

Council Plan

14. The Annual Financial Report provides a technical financial summary of the activities of the council and contributes the overall financial plan by providing financial information about the City of York Council (CYC) that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the Council. It also assists in providing the Council with a viable financial position in which to base its future budget projections

Implications

15. The implications are

- Financial – financial information is included in the body of the report
- Human Resources - there are no human resource implications to this report.
- Equalities - there are no equality implications to this report.
- Legal - there are no legal implications to this report.
- Crime and Disorder - there are no crime and disorder implications to this report.
- Information Technology - there are no information technology implications to this report.
- Property –there are no property implications to this report.
- Other – there are no other implications to this report.

Risk Management

16. Areas of risk identified throughout the Annual Financial Report process are monitored and managed on an ongoing basis to ensure the statutory deadline of 20 June 2013 is met.

Recommendations

17. That the Audit & Governance Committee note that only minor changes are required in the 2012/13 Annual Financial report 2012/13 compared to last year and also note the accounting treatment for the Fixed Asset Register and Cash and Bank and the approach taken to the reconciliation of school bank accounts.

Reason: That those responsible for governance arrangements are updated and made aware as to the approach taken to the Annual Financial Report 2012/13, for their approval by 30 June 2013.

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Ian Floyd
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Report approved ✓ Date | 12/12/12

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All** ✓

For further information please contact the author of this report

Background Working Papers

AGR 2011/12