5. ANNUAL AUDIT LETTER 2012/13

REPORT OF:	Head of Finance
Contact Officer:	Peter Stuart, Head of Finance
	Email: PeterS@midsussex.gov.uk Tel: 01444 477315
Wards Affected:	All
Key Decision	No

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1. Purpose Of Report

The purpose of this report is to present the Annual Audit Letter (AAL) 2012/13 to those charged with governance.

2. Summary

2.1 The Council is required to receive the AAL at the close of the Auditor's work for the year.

2.2 This Letter is attached and presents a positive view of arrangements.

3. Recommendations

3.1 The Audit Committee is recommended to receive the Annual Audit Letter.

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4. Background

4.1 The Audit Commission's Code of Audit Practice requires auditors to prepare an Annual Audit Letter and issue it to each audited body

4.2 The purpose of preparing and issuing annual audit letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The letter covers the work carried out by auditors since the previous letter was issued.

4.3 Whilst the format of the letter is not prescribed it should highlight the key issues drawn from reports to those charged with governance and auditors' conclusions on relevant aspects of the audit. It should be prepared in clear language that is concise and accessible to a wide audience

4.4 Annual audit letters are addressed to all members of local government bodies and directors of NHS bodies. Although some audited bodies are not subject to a statutory requirement to publish their annual audit letters, auditors encourage the audited body to publicise the availability of the letter, and it remains a requirement that the letter is shared with all members. The Commission's decision to publish annual audit letters on its website is part of its objective to make its findings easily accessible to everyone

4.5 There is nothing contained within the Letter that is not already stated within the Annual Governance Statement. In that sense it is a duplication but one that has not yet been removed from the post audit responsibilities.

5 Financial implications

5.1 There are no financial implications arising from this report

6 Risk Management Implications

6.1 No risks arise from this report or associated actions.

7 Equality and customer service implications

7.1 This report has no such implications..

8. Other Material Implications

8.1. This report .

Background Papers
None

Mid Sussex District Council

Year ending 31 March 2013

Annual Audit Letter

October 2013

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INVESTOR IN PEOPLE

The Members
Mid Sussex District Council
Oaklands Road
Haywards Heath
West Sussex
RH16 1SS

25 October 2013

Dear Members,

Annual Audit Letter

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

We have already reported the detailed findings from our audit work to those charged with governance of Mid Sussex District Council in the following reports:

Audit Results Report for the year ended 31 March 2013	Issued 16 September 2013 and presented to members of the Audit Committee on 24 September 2013

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

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

Yours faithfully

Helen Thompson

Helen Thompson
For and behalf of Ernst & Young LLP
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Contents

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 1 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

As auditors we are responsible for:

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

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

Audit the financial statements of Mid Sussex District Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 27 September 2013 we issued an unqualified audit opinion for the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 27 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 16 September 2013 we issued our report for the Authority. We presented our report to the 24 September 2013 Committee meeting.
Report to the National Audit Office (NAO) on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the NAO on 27 September 2013. We highlighted a difference of £31,000 between the audited accounts and the consolidation pack for the value of property, plant and equipment.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 27 September 2013 we issued our audit completion certificate

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 27 September 2013.

Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

Financial statement risks:

Bank reconciliation

- In previous years the bank reconciliation had contained balancing items. Officers have been working to improve the reconciliation, and were exploring further improvement options to reduce the risk of error from manual and time consuming processes.

- The bank reconciliation was fully reconciled for the year end.

Pension liability

- In 2012/13 the Authority included employees of Freedom Leisure within its Pension (IAS19) liability, on the basis that in its view the terms of the contract required the pension liability to stay with the Authority. There were weaknesses in the arrangements to supply the actuary with accurate and timely pension contribution information that officers were seeking to improve.

- The Authority improved the arrangements for ensuring Freedom Leisure information was provided to the pension fund administering body.

Risk of misstatement due to fraud and error

- Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

- We undertook procedures required by auditing standards, and had no issues to report.

Accounting for CenSus

- The Authority identified that in previous years it had not accounted for its participation in the CenSus partnership correctly

- We agreed with the Authority's conclusion that a prior period adjustment was required.
- We reviewed the accounting within the 2012/13 financial statements, and have no matters to report.

There were few amendments required to the draft financial statements. None were material, or affected the level of the Council's reserves.

We did highlight that the working papers provided in support of the financial statement could be improved to aid audit efficiency and reduce the amount of officer time in responding to audit queries.

2.2 Value for money conclusion

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

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

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

We issued an unqualified value for money conclusion on 27 September 2013.

Area of focus:	Key findings:
Financial standing	
The Authority continues to experience funding challenges from national policies.	The Authority continued its recent track record of delivering within its service budgets, with an £8,000 surplus for 2012/13. This was achieved after taking account of transfers to reserves, and the use of earlier identified savings to finance some invest to save initiatives on its pavilions and leisure facilities. We reviewed the Authority's 2013/14 budget and updated medium term financial projections, and assessed the current assumptions as reasonable. The Authority continues to experience financial pressures, as indicated by the September 2013 report to Cabinet which updates its medium term projections. This has increased the 2014/15 budget gap to £490,000. Despite these pressures, in our judgement the Authority has arrangements in place to maintain its financial resilience in the foreseeable future. Key to these are: ► a projected underspend on the 2013/14 budget, currently forecast by officers at £73,000; ► a history of financial and service planning arrangements over a number of years that identify required savings; and ► the availability of £9.4 million in the general fund, which although the Authority does not wish to use this to finance ongoing revenue expenditure, provides an adequate cushion for short term financial pressures.

2.3 Objections received

We did not receive any objections to the Authority's 2012/13 financial statements from members of the public.

2.4 Whole of government accounts

We reported to the National Audit Office (NAO) on 27 September 2013 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

The Authority's submission falls under the thresholds for a full consistency check, therefore we were only required to review the consistency of the submission to the audited financial statements for:

- property, plant and equipment; and
- pensions liabilities.

The consolidation pack prepared was consistent with the Authority's draft financial statements. Due to a change made during the audit, there was an inconsistency of £31,000 between the final audited accounts in the valuation of property, plant and equipment and the consolidation pack. Officers chose not to amend the consolidation pack.

We reported this inconsistency to the NAO.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

We completed this work and did not identify any areas of concern.

2.6 Use of other powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

3. Control themes and observations

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

There were no matters that we identified during the 2012/13 audit that we concluded are of sufficient importance to merit being reported.

6. EXTERNAL AUDIT PROGRESS REPORT

REPORT OF:	HEAD OF FINANCE
Contact Officer:	Peter Stuart Email: peter ,stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected:	*None)*
Key Decision:	No
Report to:	Audit Committee 20th November 2013

Purpose of Report

1. To present the Committee with progress on the 2012/13 audit and the level of planning for the audit of 2013/14. An audit committee briefing paper is also included to keep Members informed of key issues in this area.

2. Recommendations

The Committee is recommended to note the report.

Background

3. The external auditors, Ernst and Young, have produced a short report that summarises the position on both the audits of 2012/13 and the preparedness of 2013/14. Members can be assured that the report is straightforward and raises no new issues.

4. Alongside this report which is particular to Mid Sussex, a generic report is also presented that gives a national view of issues pertinent to local government audit. It is hoped that Members find this report of interest and helpful to their role on the Audit Committee.

Policy Context

5. External Audit is a mandatory part of the Councils business..

Financial Implications

6. None

Risk Management Implications

7. None.

Equality and Customer Service Implications

8. None.

Other Material Implications

9. None .

Background Papers

- None.

Mid Sussex District Council

Audit Committee Progress Report

November 2013

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Audit Committee
Mid Sussex District Council

20 November 2013

Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the 2012/13 audit, and an outline of our plans for the 2013/14 audit. This Progress Report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson
Director
For and behalf of Ernst & Young LLP

Contents

Work completed: 2012/13

Financial Statements

On 27 September 2013 we issued an unqualified audit opinion on the Council's financial statements.

Value for money assessment

On 27 September 2013 we issued an unqualified value for money conclusion.

Whole of government accounts

On 27 September 2013 we reported to the National Audit Office the results of our work performed in relation the accuracy of the Council's consolidation schedules. We did not identify any areas of concern.

Annual Audit Letter

We are presenting our Annual Audit Letter to today's Committee meeting.

Grant claim certification

We certified your national non domestic rates claim before the deadline and we have started work on your housing benefit subsidy claim. The deadline for completion is 30 November 2013. We have been liaising with officers in CenSus to ensure all work is completed by the deadline.

We will issue our annual report on the certification of claims and returns to the next Audit Committee. This will complete our work on the 2012/13 audit.

Audit Progress for 2012/13

Progress against key deliverables			
Key deliverable	**Timetable in plan**	**Status**	**Comments**
Fee Letter	December 2012	Completed	
Audit Plan	March/April 2013	Completed	Presented to Audit Committee March 2013
Report to Those Charged with Governance	September 2013	Completed	Reported to Audit Committee September 2013
Audit Report (including opinion, vfm conclusion)	September 2013	Completed	Reported to Audit Committee September 2013
Audit Certificate	September 2013	Completed	Reported to Audit Committee September 2013
WGA submission to NAO	September 2013	Completed	Reported to Audit Committee September 2013
Annual Audit Letter	October 2013	Completed	Reported to Audit Committee November 2013
Report on the audit of Grant Claims	December 2013	To be issued by 31 December 2013	

2013/14 audit

Fee letter

We issued our 2013/14 fee letter to the Council in April 2013.

Financial Statements

We adopt a risk based approach to the audit and as part of our ongoing continuous planning we have held a number of meetings with key officers and other stakeholders:

- November 2013 – Head of Finance and ICT to discuss the changes to the EY engagement team, outline our audit approach and to develop our understanding of the challenges and risks you are facing.

- Ongoing discussion with key finance staff to discuss significant risks and emerging issues around the account preparation process.

- We continue to liaise with Internal Audit to ensure we can place reliance on their work where possible.

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls is planned for January 2014. The detailed testing of the controls and critical path of each material system is planned for March 2014.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll, cash payments and receipts and journal entries.

Value for money

The Audit Commission has now issued its guidance on the 2013/14 value for money conclusion. The full guidance can be found at http://www.audit-commission.gov.uk/technicaldirectory/vfm1314/.

There are no planned changes to the approach in 2013/14, and we will carry out our initial risk assessment in December 2013 and report the risks we have identified and associated work we will carry out to the June 2014 Audit Committee.

Timetable: 2013/14

Audit Committee Timeline

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2013/14 Audit Committee cycle.

We will provide formal reports to the Audit Committee throughout our audit process as outlined below.

Audit phase	Timetable	Deliverables
High level planning:	**November**	Audit Fee Letter
Risk assessment and setting of scope of audit	**January - March**	Audit Plan
Testing of routine processes and controls	**March – April**	Audit Plan
Year-end audit	**July - September**	► Report to those charged with governance ► Audit report on the financial statements and value for money conclusion ► Audit Completion certificate ► Whole of government accounts
Reporting	**October**	Annual Audit Letter
Grant Claims	**December**	Annual certification report

In addition to the above formal reporting and deliverables we provided practical business insights and updates on regulatory matters through our Sector Briefings. The latest version of the Briefing is included as an attachment to this report.

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Ernst & Young LLP

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Local Government Audit Committee briefing

Contents at a glance

Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

Sector and economic news

Proposals for the use of capital receipts from asset sales to invest in reforming services

On 25 July 2013 the Government launched a consultation on 'Proposals for the use of capital receipts from asset sales to invest in reforming services'. The consultation aimed to gather views from the Local Government sector on proposals to allow part or even the whole of a capital receipt from new asset sales to be used for one-off revenue purposes.

The broad aims of the proposed policy are to:

- Encourage good asset management planning and incentivise the appropriate sale of local authority assets so that they are put into productive use and support growth.
- To enable additional resources, from local authority asset sales, to give a capital receipt flexibility for the one-off cost of reforming, integrating or restructuring services.

Views were sought to gauge the level of support for the proposed policy, as well as comments on how it would work in practice and the mechanisms for delivery.

A competitive bidding process is the preferred mechanism for approving such use of capital receipts. It is proposed that any application under a bid based process should set out a cost/benefit analysis to demonstrate value for money.

The criteria to evaluate competing applications from local authorities could include:

- Amount of expenditure and proposed use of that revenue
- The reduction of ongoing/long-term costs
- How you plan to transform your services
- Working across the wider public sector
- Asset to be sold
- Possible forward use of an asset

The consultation also considered how any approved proposals would be implemented, highlighting two possible methods:

- A Direction from the Secretary of State, allowing specified revenue expenditure to be treated as capital expenditure
- Through the existing provisions in The Local Authorities (Capital Finance and Accounting) Regulations 2003 (SI: 2003/3146).

The preferred option set out in the consultation documented is through a letter of Direction from the Secretary of State, as this would more closely fit with the competitive bid process.

Sector and economic news

The consultation closed on 24 September, and it is expected that there will be a response to the consultation in Autumn setting out the finalised proposals. The indicative timeline set out in the consultation document is set out below.

Event	Timing
Bid process commences	Winter 2013
Bid process decisions	Spring 2014
Direction letter issued	Spring 2014
Disposal of Asset	August 2013–March 2016
Revenue Expenditure	April 2015–March 2016

Economic outlook

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, published its Autumn Forecast in October 2013. It recognises that the UK economy is improving with GDP now projected to grow by 1.4% this year and 2.4% next year after a 0.1% rise in 2012. It notes that this is supported by the encouraging outlook for exports and business investment. It warns, however, that unforeseen events could disrupt this positive outlook, not least new external shocks such as the US budget deadlock. It believes that the view that the UK government's initiatives to support the housing market will result in a housing bubble is strongly overplayed. It states that the current rises in prices and transactions are from a historically very low base, and remain way below pre-crisis levels. With the housing recovery knocking on into wider consumer spending, and virtually all surveys of business confidence trending upwards, the economic outlook for the UK is continuing to brighten — despite the inevitable risks.

Accounting, auditing and governance

Audit Commission briefing on the Local Audit and Accountability Bill

On 4 September 2013 the Audit Commission released a briefing paper on the Local Audit and Accountability Bill, which is currently passing through Parliament.

The briefing provides an up-to-date view of where the Commission believes that amendments and refinements could further improve and strengthen the Bill.

Eight areas are identified in the briefing, where the Commission believes improvements to the bill could be made:

1. Including an option for optional collective procurement arrangements.
2. Strengthening the arrangements for the appointment of auditors, by having external members on audit committees rather than separate audit panels.
3. Expanding the data collected as part of the National Fraud Initiative.
4. Allowing more time to develop a proportionate audit regime for small bodies, by allowing current arrangements to be extended to 2020.
5. Ensuring that there continues to be central returns and publications to support accountability to Parliament and the public.
6. Including reporting on arrangements to secure value for money.
7. Updating the legislative framework governing local public audit.
8. Considering the transitional issues to the new regime, given that contracts under the current framework end in 2016/17 (with potential extensions to 2020), but the Commission, who manage the contracts, is due to be fully abolished in 2015.

Minimum Revenue Provision (MRP)

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) became effective from March 2008. These regulations replaced the formula-based method for calculating MRP which existed under previous regulations under the Local Government Act 2003. The new requirement was for an authority to:

'Determine for the current financial year an amount of minimum revenue provision which it considers to be prudent'.

No definition of 'prudent' was given, although DCLG issued statutory guidance in 2008, which authorities had to take account of, setting out their interpretation. This was updated in 2012 to take account of HRA self-financing and the implications of IFRS regarding PFI schemes. For authorities with a positive Capital Financing Requirement (CFR) the guidance set four out options, but indicated that any alternatives that met the basic criteria included within the statutory guidance was acceptable. The four options are briefly described below:

1. Regulatory Method (for expenditure incurred before 1st April 2008, and supported expenditure incurred after that date):
   - MRP is charged at 4% of the Authority's capital financing requirement (or underlying need to borrow for a capital purpose) which has been reduced by Adjustment A (calculated in 2004 under previous regulations).
2. CFR Method (for expenditure incurred before 1 April 2008, and supported expenditure incurred after that date):
   - MRP is simply charged at 4% of the Authority's capital financing requirement at the end of the preceding financial year (with no technical adjustment).

Accounting, auditing and governance

3. Asset Life Method (for unsupported capital expenditure incurred on or after 1st April 2008):
   - An MRP provision is made over the estimated life of the asset for which the borrowing (or other long-term financing) has been undertaken. This will be based either on the 'equal instalment method' or the 'annuity method'.
4. Depreciation Method (for unsupported capital expenditure incurred on or after 1st April 2008):
   - An MRP provision is calculated in accordance with the standard rules for calculating depreciation provision.

The use of a broad framework rather than the formulaic approach has resulted in incorrect interpretation and calculation of MRP at a number of authorities in the past. Our audit work during the last year identified examples where authorities were not following their own accounting MRP policy or were, in a number of cases, overstating the amount of MRP that they set aside. Detailed work at selected sites identified that these non-compliance and calculation errors had accumulated overstatements of MRP of more than £10mn which could be reversed. Similar in-depth reviews can be incorporated within the 2013/14 audit programmes.

Regulation news

Pensions Regulator to have oversight of public sector pensions

The 2013 Public Service Pensions Act which received royal assent in April afforded the Pensions Regulator an enhanced role – broadening its remit to include oversight of public sector pensions from April 2015. It will set standards of governance and administration for public sector schemes in response to the Independent Public Service Pensions Commission's 2011 recommendations make improvements to both of these areas.

The schemes include approximately 22,000 employers and 12.6mn members (2012 figures taken from the Pensions Regulator website), and span Local Government, NHS, Police, Fire, Teachers, Civil Service, Armed Forces and Judicial pension schemes.

The Pensions Regulator has published a report, together with the supporting research, which documents current practice in these eight categories of public sector pension schemes.

The Pensions Regulator has promised to 'take action if necessary' to ensure public sector pension schemes are run to high standards following government reforms that will see it assuming oversight of the public sector.

Following the passage of the 2013 Public Service Pensions Act the regulator will set standards of governance and administration for public sector schemes from April 2015 including Police and Fire.

On September 6, the Pensions Regulator produced a report summarising current practice in eight categories of civil service pension schemes.

The survey of current schemes found room for improvement but also highlighted areas of good practice.

Local Government Pension Scheme findings:

- The survey noted that governance and administration had been on the agenda for these schemes for several years, and that this was evident in the survey findings, which demonstrated greater awareness of these matters.
- Ninety eight percent had a governance board in place. The majority of schemes also had a risk register in place, with risks and internal controls being reviewed at least annually; a conflict of interests policy and a register of members' interests.
- Eighty one percent of LGPS arrangements are administered in-house and the majority have service standards which are documented and reported against.
- LGPS schemes when compared the others in the survey had the most active member communication.

The Regulator is now working on producing code of practice as well as the regulatory strategy, and has plans to monitor and report on the progress of public sector schemes each year.

Regulation news

Local Government Pension Scheme Structural Reform

In addition to the review of investment regulations noted in the previous sector update, a wide ranging consultation was announced by Brandon Lewis MP (Minister for Local Government) in a speech at the National Association of Pension Funds local authority conference in May 2013. The consultation was launched by DLCG and the LGA in June 2013 and aimed to identify reforms that will both improve investment performance and reduce fund management costs, in advance of the implementation of the new scheme in April 2014.

The consultation closed at the end of September, and the analysis of submissions is expected to inform a further consultation on options for change, which is to be released in early 2014.

At the same time, further detail has been provided about the proposed governance arrangements for the new LGPS in the DCLG discussion paper 'Local Government Pension Scheme (England and Wales) New Governance arrangements, also issued in June 2013.

The paper set out the proposed response to five specific sections of the Public Service Pensions Act 2013 which impact on the governance arrangements of the new scheme:

1. Responsible authority
2. Scheme manager
3. Pension board
4. Pension board information
5. Scheme Advisory board

The intention is for new regulations to be in place before April 2014, which will require new scheme advisory boards and local pension boards to become operational later in the year. In the intervening period between the commencement of the new LGPS scheme and the governing bodies becoming operational, existing governance arrangements under Section 101 of the Local Government Act 1972 will continue to apply.

This consultation closed at the end of August.

Find out more

To find out more on the articles above, please follow the links below:

Proposals for the use of capital receipts from asset sales to invest in reforming services

Full details can be found at:
https://www.gov.uk/government/consultations/proposals-for-the-use-of-capital-receipts-from-asset-sales-to-invest-in-reforming-services.

Economic outlook

For the full analysis go to:
http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections

Audit Commission briefing on the Local Audit and Accountability Bill

The full briefing can be found at:
http://www.audit-commission.gov.uk/2013/09/public-briefing-on-the-local-audit-and-accountability-bill/

Minimum Revenue Provision

For more information, please see the DCLG guidance at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/11297/2089512.pdf
For more details on calculating MRP, please refer to Chapter 6 of the Practitioners' Guide to Capital Finance in Local Government (CIPFA 2008).

For details on incorporating a more in-depth review of MRP into your 2013/14 audit programmes, contact your audit team.

Pensions Regulator to have oversight of public sector pensions

For more information see the Pensions Regulator website at:
http://www.thepensionsregulator.gov.uk/index.aspx
and the civil service pension schemes report at:
http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary.pdf

Local Government Pension Scheme Structural Reform:

For further detail on the consultation, and to view all available consultations and consultation outcomes within the Local Pension series please visit:
https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-government-pensions

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7. REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2013

REPORT OF:	Head of Finance, ICT and HR
Contact Officer:	Peter Stuart Email: peter.stuart@midsussex.gov.uk Tel: 01444 477315 Tony Jackson, Group Accountant Email: tony.jackson@adur-worthing.gov.uk Tel: 01903 221261
Wards Affected:	All
Key Decision:	No
Report to:	Audit Committee 20 November 2013

Purpose of Report

1. The report sets out the Council's treasury management activity for the half year to 30 September 2013.

Summary

2. All transactions are in order and there are no exceptional events upon which to report.

Recommendations

3. The Committee is recommended to note the report.

Background

4. The Treasury Management function of this Council has been delivered by Adur & Worthing Councils as a shared service since 2010. This enables the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. From 18th October 2013 the council entered into a renewal of this service for a further three years.

5. The report of the Strategic Finance Group Accountant is attached at Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of specialist treasury management knowledge, it would reward careful reading by those with an interest.

6. For those Members seeking a summary of the half year performance, paragraph 10.2 sets out the report in one sentence:

7. 'The Council's performance during the half year exceeded the budgeted returns for investment income, and was within the counterparty lending limits and Prudential Limits approved at the start of the year'.

8. The Group Accountant would welcome questions and queries from Members using the contact details above.

Policy Context

9. The presentation of this report fulfils the requirements under the Council's treasury management policy delivered as part of the shared services arrangements. The regulatory environment puts onus on members for the review and scrutiny of treasury management policy and activities, and therefore this report is important in that respect.

Other Options Considered

10. None

Financial Implications

11. None

Risk Management Implications

12. None

Equality and Customer Service Implications

13. None

Other Material Implications

14. None

Background Papers

- Treasury Management Strategy Statement and Annual Investment Strategy 2013/14 to 2015/16 (March 2013)

APPENDIX 1

TREASURY MANAGEMENT OPERATIONS REPORT FOR HALF YEAR 1 APRIL – 30 SEPTEMBER 2013

1. SUMMARY

1.1 This report summarises the treasury management transactions and portfolio position for the first six months of 2013/14 financial year. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. INTRODUCTION AND BACKGROUND

2.1 Treasury management is defined as:

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 The Council has adopted and complies with the Code of Practice on Treasury Management recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). Part of the requirements of the code is to have formalised arrangements for regularly reporting treasury management activity to Members.

2.3 The reporting arrangements were last updated and adopted at the meeting of the Council in March 2013, at which the Treasury Management Strategy Statement and Annual Investment Strategy 2013/14-2015/16 was presented.

2.4 The Strategy requires the production of an annual outturn report no later than 30 September after the financial year end, and also for a report of treasury management performance at the half way point of the current year. The first reporting requirement was fulfilled by the submission in June 2013 of the Treasury Management Annual Report for 2012/13, the second requirement is fulfilled by the presentation of this report, which covers :

- ♦ the treasury portfolio position (Section 3)
- ♦ the borrowing strategy and outturn (Section 4)
- ♦ the economic position and the future outlook (Section 5)
- ♦ the investment strategy and outturn (Section 6)
- ♦ compliance with treasury limits and Prudential Indicators (Section 7)
- ♦ performance measures (Section 8)
- ♦ other issues – approved investment list (Section 9)

3. PORTFOLIO POSITION

3.1 The Council's position at the start and half year points for 2013/14 was as follows:-

	Balance at 01.04.13 £m	Raised in Year £m	Repaid in Year £m	Balance at 30.09.13 £m
Borrowing				
Public Works Loan Board (PWLB)	(1.319)	-	0.072	(1.247)
Temporary Borrowing	-	(2.000)	2.000	-
TOTAL BORROWING	**(1.319)**	**(2.000)**	**2.072**	**(1.247)**
Investments:				
In-house:				
Long Term	2.000	2.000	(2.000)	2.000
Short Term	21.500	95.285	(87.631)	29.154
With Fund Managers	-	-	-	-
TOTAL INVESTMENTS	**23.500**	**97.285**	**(89.631)**	**31.154**
NET INVESTMENTS	**22.181**	**95.285**	**(87.559)**	**29.907**

3.2 The borrowing position is explained further in Section 4 below, while the investments transacted in the half year are summarised by type of institution in Section 6.

4. BORROWING STRATEGY AND OUTTURN 1 April – 30 September 2013

4.1 The borrowing position summarised in Para.3.1 above relates entirely to long term fixed borrowing from the Public Works Loan Board as follows:

Loan Number	Start Date	End Date	Original Loan Amount £	Interest Rate	Balance at 30. 09. 2013*
494369	06/03/2008	01/03/2023	1,700,000	4.55%	1,209,125
495726	27/07/2009	30/06/2014	205,000	2.23%	43,197
TOTAL LOANS			1,905,000		1,252,322
(* includes accrued interest to 30 September)					

4.2 These loans are repaid by fixed annuities over the life of the loans, some £72k having been repaid in the first six months of 2013/14.

4.3 One temporary loan of £2m was obtained from another Council for a period of 30 days from 20 May to 19 June at a rate of 0.31%. This arose due to uncertainty in cash flows in respect of the new localised business rates regime introduced from 1 April 2013, and related adjustments to Revenue Support Grant. Such borrowing for short term temporary cash flows is entirely permissible within the treasury management policy, and no prudential limits on borrowing were exceeded.

4. BORROWING STRATEGY AND OUTTURN 1 April – 30 September 2013

4.4 The total cost of interest payable on all borrowing for the half year to 30 September 2013 was £29,546, while the full year cost is expected to be £57,053 if no further borrowing is incurred. The interest on borrowing is in keeping with the budgetary estimates for 2013/14.

5. THE ECONOMY AND INTEREST RATES 2013/14 ONWARDS

The following section comprises an extract of the key points of a commentary provided by the Council's shared service provider's professional Treasury Management consultants Capita Asset Services Limited.

Economic Update

5.1 During 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in Q2. There have been signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

5.2 The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further. Pay growth also rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the top rate of income tax. Excluding bonuses, earnings rose by just 1.0% year on year, well below the rate of inflation at 2.7% in August, causing continuing pressure on household's disposable income.

5.3 The Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding, particularly to small and medium size enterprises. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with mortgage interest rates falling further to new lows. Together with the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks have risen as have house prices, although they are still well down from the boom years pre 2008.

5.4 Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 started to come down, but only slowly, as Government expenditure cuts took effect and economic growth started to show through in a small increase in tax receipts. The 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged in advance of the new Bank of England Governor, Mark Carney, arriving. Bank Rate remained at 0.5% and quantitative easing also stayed at £375bn. In August, the MPC provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which was not expected until mid 2016. However, 7% is only a point at which the MPC will review Bank Rate, not necessarily take action to change it. The three month to July average rate was 7.7%.

5. **THE ECONOMY AND INTEREST RATES 2013/14 ONWARDS**

Economic Update

5.5 CPI inflation (MPC target of 2.0%), fell marginally from a peak of 2.9% in June to 2.7% in August. The Bank of England expects inflation to fall back to 2.0% in 2015.

5.6 Tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a renewed flare-up. Economic survey data improved consistently over the first half of the year, pointing to a return to growth in Q2, so ending six quarters of Eurozone recession.

6. **INVESTMENT STRATEGY AND OUTTURN FOR 2013/14**

Investment Strategy

6.1 The Council's investment strategy aimed to secure investment interest for 2013/14 of £259,000, as contained in the budgetary estimates included in the Budget Report. This equates to expected average returns on all investments of 0.872%. This target was set against the overriding criteria of security of principal sums invested, and liquidity of funds to service the Council's operational cash flow requirements.

6.2 The actual performance for the first half of 2013/14 achieved returns on investment totaling £197k (1.18%) - just £62k below the target for the full year. Forward projections at 30 September anticipate the full year returns on investment to be close to £273k, some £14k more than predicted at the start of the year. However, the forward projection is tempered by concern about the ongoing impact of the Government's Funding For Lending Scheme, which has suppressed interest rates generally.

6.3 Actual returns on investment for the half year have exceeded the budgeted target as funds available for investment have gone up by £7.65m since the start of the year, and are on average £3.5m above the forecast average funds.

6.4 Consequently, £2m of the total portfolio has been re-invested long term up to 2 years at rates of 1.21% and 1.4%, and a further £2m has been invested with Lloyds TSB for 364 days at 1.1%. These deals are all above the budgeted target return of 0.872%, and account for the total expected return over budget of £14k by the end of the year.

6.5 The movement and composition of investment transactions during the period were:

2013/14 Movement	Balance 01.04.13 £m	Raised in Year £m	Repaid in Year £m	Balance 30.09.13 £m	% of Funds at 30.09.13
Investments					
Long-term > 1 year	2.000	2.000	(2.000)	2.000	6.4%
Short-term < 1 year	21.500	95.285	(87.631)	29.154	93.6%
TOTAL	**23.500**	**97.285**	**89.631**	**31.154**	**100.0%**

6. INVESTMENT STRATEGY AND OUTTURN FOR 2013/14

Investment Strategy

6.6 The investment transactions are further analysed by volume (i.e. turnover in the half-year), financial institution and deal size as follows:

	No. of Transa-ctions	Amount Invested £000	Average Deal Size £000	Minimum Deal Size £000	Maximum Deal Size £000
Long-term (> 1 year)					
Banks	-	-	-	-	-
Building Societies	2	2,000	1,000	1,000	1,000
Total Long Term	**2**	**2,000**	**1,000**	**1,000**	**1,000**
Short-term < 1 year or less)					
Council's own Bank	-	-	-	-	-
Other Banks	8	8,000	1,000	1,000	1,000
Building Societies	19	29,500	1,553	1,000	3,000
Money Market Funds	74	57,785	781	40	3,000
Total Short-term	**101**	**95,285**	**1,276**	**-**	**-**
OVERALL TOTAL	**103**	**97,285**	**1,083**	**-**	**-**

6.7 The Council's treasury management policy currently restricts exposure to banks to a maximum of £4m, except for the Council's own bank, the Cooperative Bank, for which the limit is £5m. For building societies and Mony Market Funds the limit is £3m.

6.8 However, the Co-operative Bank was downgraded in May 2013 when the Council's investment exposure was £4m. At 30th September the investments with the Cooperative bank had reduced to £2m, comprising 2 separate investments of £1m each, maturing 7th January 2014 and 19th March 2014.The Council has therefore taken the action to suspend further fixed term deposits with its banker, and limit daily exposures by utilising its Money Market Funds (MMF's) for overnight liquidity. This is reflected in the volume of transactions summarised above, where MMF's account for nearly three quarters of all transactions – the remainder being fixed term deposits of variable durations.

6.9 The use of MMF's indirectly exposes the Council to non-UK investments. To contain this exposure, not more than 25% of total funds is invested in MMF's at any one time, and the underlying assets are analysed through a web-based dealing portal. Total MMF fund investments amounted to £1.154m at 30 September, 2013, representing just 3.7% of total funds.

6. INVESTMENT STRATEGY AND OUTTURN FOR 2013/14

Investment Strategy

6.10 The composition of investments at 30 September, and the maximum counterparty exposures during the half-year are shown at Appendix 2. All investments were conducted within the specified permissible limits, and no revisions to the investment strategy or counterparty limits are proposed.

7. COMPLIANCE WITH TREASURY MANAGEMENT LIMITS AND PRUDENTIAL INDICATORS

7.1 The Council operates to approved Prudential Indicators for treasury management as contained in the Treasury Management Strategy Statement. The approved limits exist to regulate short-term borrowing for operational cash flow fluctuations, as well as long-term borrowing for financing capital investments. Additionally, the limits aim to mitigate risk against fluctuations in interest rates.

7.2 The Council's performance against its treasury management limits and prudential indicators for 2013/14 (up to 30 September) is compared against the actual performance for 2012/13, and the 2013/14 full year estimates, in Appendix 3. Actual performance is within the target limits.

8. PERFORMANCE MEASURES

8.1 The Council's borrowing outturn performance for the half year has been compared to the rate for equivalent new loans taken from the PWLB with the following results:

	Mid Sussex District Council			
Debt Measures for half year to 30 Sept. 2013	**Average Interest Rate % for 2013/14**	**Debt (£m) at 30.09.13**	**% of Debt at 30.09.13**	**Equivalent New Loan Rate of Interest at 30.09.13**
Short term Fixed (1 yr)	-	-	-	1.32%
Long Term Fixed (15 yrs)	4.45%	(1.248)	100.0%	4.10%

8.2 The Council's long term debt is at a rate slightly higher than the interest rate for new long term loans of equivalent duration, but this reflects the position that long term interest rates are generally lower than when the Council's original debt was incurred. Although, the Council had no short term debt at the half-year point, the interest rate of 0.31% applicable to the temporary borrowing of £2m referred to in Para 4.3 was below the benchmark rate of 0.51% for equivalent loans.

8. **PERFORMANCE MEASURES**

8.3 For the reasons stated in Paras.6.3-6.4 above, the council's investment returns are also above the benchmark's average rate of returns, as shown in the Table below.

INVESTMENTS	Mid Sussex Average Balances Held in Half Year(£m)	Mid Sussex Rate of Return %	Benchmark Average Return %
Short-term Fixed Long-term Fixed	31,250 1.980	1.16% 1.39%	0.39% (3 Month) 0.76% (1yr plus)
Combined Return	33,230	1.18%	0.75%

9. OTHER ISSUES

. **Approved Counterparty List for Investments**

9.1 No amendments to the Approved Counterparty List for Investments have been made since the Treasury Management Strategy was approved in March 2013. Security of principal sums invested is foremost, and your officers remain vigilant to the volatility of the financial markets.

9.2 The List of Approved Counterparties for Investment purposes is shown in Appendix 4.

10. **CONCLUSION**

10.1 This report fulfils the requirements under the CIPFA Code of Practice for Treasury Management, as well as the Council's own treasury management practices, to present a half year outturn report on treasury management activity for the period 1 April to 30 September, 2013.

10.2 The Council's performance during the half year exceeded the budgeted returns for investment income, and was within the counterparty lending limits and Prudential Limits approved at the start of the year.

Principal Author and Contact Officer: Tony Jackson – Extension 1261

Background Papers: (1) Report to Council - "Treasury Management Strategy Statement and Annual Investment Strategy 2013/14 – 2015/16 (March, 2013).

(2) Half Year Treasury Management Report 2012/13 Template (Capita Asset)

APPENDIX 2

MAXIMUM INVESTMENTS WITH EACH COUNTERPARTY
1 APRIL – 30 SEPTEMBER 2013

Name of Counterparty	Maximum Individual Investment	Maximum Holdings At Any Time	Balance at 30th September 2013
	£m	£m	£m
Fixed Term Cash Deposits			
Banks			
Bank of Scotland	1.000	2.000	2.000
Barclays Bank	1.000	4.000	4.000
Lloyds TSB	1.000	3.000	3.000
Royal Bank of Scotland	1.000	3.000	2.000
Building Societies			
Coventry	3.000	3.000	-
Cumberland	1.000	1.000	1.000
Leeds	1.000	1.000	-
National Counties	1.000	3.000	3.000
Nationwide	2.000	3.000	3.000
Newcastle	2.000	3.000	2.000
Nottingham	1.000	2.000	2.000
Skipton	1.500	3.000	3.000
West Bromwich	1.000	3.000	3.000
Commercial Money Markets			
Invesco	3.000	3.000	-
Prime Rate	3.000	3.000	0.350
RBS	3.000	3.000	0.804
Council's Own Bank			
Co-operative Bank	1.000	4.000	2.000
TOTAL INVESTMENTS AT 30th SEPTEMBER, 2013			31.154

APPENDIX 3

COMPLIANCE WITH PRUDENTIAL INDICATORS 2013/14

1. PRUDENTIAL INDICATORS Extract from budget	2012/13 Actual	2013/14 Full year Estimate	2013/14 Actuals (at 30 Sep'13)
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	2,508	5,995	2,371
Ratio of financing costs to net revenue stream – Non HRA	-1.80%	0.75%	-0.40%
Borrowing Outstanding			
Brought forward 1 April	1,458	1,324	1,324
Carried forward 31 March/30 Sep	1,324	1,179	1,252
Net in year borrowing / (repayments)	(134)	(145)	(72)
Capital Financing Requirement as at 31 March			
Non – HRA	2,032	1,708	2,032
Change in Cap. Financing Requirement			
Non – HRA	-231	-324	-
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	-£0.66	£0.18	-£2.96
2. TREASURY MANAGEMENT INDICATORS			
Authorised Limit for external debt -	**Limit £'000**	**Limit £'000**	**Actuals (£'000) at 30.09.13**
Borrowing	£5,000	£5,000	£1,252
Other long term liabilities	£1,000	£1,000	£671
Total Authorised Limit for external debt -	£6,000	£6,000	£1,923
Operational Boundary for external debt			
Borrowing	£3,000	£3,000	£1,252
Other long term liabilities	£1,000	£1,000	£671
Total Operational Boundary for external debt	£4,000	£4,000	£1,923
	Actuals at 31.03.13	**2013/14 Limit**	**Actuals at 30.09.13**
Upper limit for fixed interest rate exposure			
Investments net of Borrowing	100%	100%	96.9%
Upper limit for variable rate exposure			
Investments net of Borrowing	0%	0%	3.1%
Upper limit for total principal sums invested for over 364 days	48%	50%	9%

APPENDIX 3

COMPLIANCE WITH PRUDENTIAL INDICATORS 2013/14

The Maturity structure of fixed rate borrowing at 30 September 2013 is :	Proportion of Total Fixed rate Borrowing
under 12 months	0%
12 months and within 24 months	5%
24 months and within 5 years	0%
5 years and within 10 years	0%
10 years and above	95%

APPENDIX 4

APPROVED INVESTMENT INSTITUTIONS

Specified Investments identified for use by the Council

New specified investments will be made within the following limits:

(a) *Banks (Approved Investment Regulation 2 (b))*

Major U.K. and European Banks and their wholly-owned subsidiaries meeting the Council's approved investment criteria.

		Group	Individual Sum and Maximum Period	
1	**HSBC Bank Group:**	**£5m**		
	• HSBC Bank plc		£4m	5 years
2	**The Royal Bank of Scotland Group:**	**£5m**		
	• The Royal Bank of Scotland plc		£4m	5 years
	• National Westminster Bank plc		£4m	5 years
	• Ulster Bank Belfast Limited		£1m	1 year
3	**Lloyds TSB Group::**	**£5m**		
	• Lloyds TSB Bank plc		£4m	5 years
	• Halifax plc		£4m	5 years
	• Bank of Scotland plc		£4m	5 years
	• HBOS Treasury Services plc		£4m	5 years
4	**Barclays Group:**	**£5m**		
	• Barclays Bank plc		£4m	5 years
5	**Santander Group:**	**£5m**		
	• Santander UK plc (incorporating Alliance and Leicester & Abbey National)		£4m	5 years
6	**The Co-operative Bank p.l.c.**		£5m	5 years
7	**Clydesdale Bank**		£4m	5 years

APPENDIX 4

APPROVED INVESTMENT INSTITUTIONS

(b) *Building Societies (Approved Investment Regulation 2 (c))*

(i) Building Societies (Assets in excess of £1 billion):

Rank *	Counterparty	Individual	
		Sum	Period
1	Nationwide	£3m	3 years
2	Yorkshire	£3m	3 years
3	Coventry (incorporating Stroud & Swindon)	£3m	3 years
4	Skipton	£3m	3 years
5	Leeds	£3m	3 years
6	West Bromwich	£3m	3 years
7	The Principality	£3m	3 years
8	Newcastle	£3m	3 years
9	Norwich and Peterborough	£3m	3 years
10	Nottingham	£3m	3 years
11	Progressive	£3m	3 years
12	Cumberland	£3m	3 years
13	National Counties	£3m	3 years

(c) *Money Market Funds (Approved Investment Regulation 2(2) and 2(3) (b))*

Counterparty	Sum	
Invesco Aim – Sterling	£3m	For Short Term Operational Cash Flow Purposes
Blackrock Institutional Sterling Liquidity Fund	£3m	
Agnes Sterling Liquidity Fund	£3m	
Goldman Sachs Sterling Liquidity Reserve Fund	£3m	
Henderson Liquid Assets Sterling Fund	£3m	
Fidelity Institutional Cash Fund plc – Sterling	£3m	
Federated Investors Primerate Sterling Liquidity Fund	£3m	
RBS – Global Treasury Fund - Sterling	£3m	

The limit for investing in any one Money Market Fund is £3 million. Total investments in Money Market Funds shall not exceed £5m or 25% of the total investment portfolio, whichever is the higher.

APPROVED INVESTMENT INSTITUTIONS

(d) **Local Authorities (Approved Investment Regulation 2 (i) and Schedule Part II)**

(i) **All the following local authorities mentioned in the Regulations**

Schedule Part II Ref	Details	Individual Sum	Individual Period
1	County Councils (England and Wales)	£3m	5 years
2	District Councils in England and Wales (including Borough, City, Metropolitan Borough Councils and Unitary Councils)	£3m	5 years
3	London Borough Councils	£3m	5 years
4	The Common Council of the City of London	£3m	5 years
5	The Council of the Isles of Scilly	£3m	5 years
6	(Joint authorities (police, fire, civil defence, transport) - see other public bodies)		
7	Combined police authorities	£3m	5 years
8	(Metropolitan Police - see other public bodies)		
9 - 13	(Not permitted)		
14	(Levying body under s.74 LGFA 1988 - see other public bodies)		
15	(Special levying body s.75 LGFA 1988 - see other public bodies)		
16	Regional, Islands, or District Councils in Scotland	£3m	5 years
17	Joint boards under s.235 (1) of LG (Scotland) Act 1973	£3m	5 years
18 - 27	(See other public bodies)		
28	District Councils in Northern Ireland	£3m	5 years
29	Police Authorities under s.3 Police Act 1964 as substituted by s.2 Police & Magistrates Courts Act 1994	£3m	5 years

APPROVED INVESTMENT INSTITUTIONS

(e) **Nationalized Industries and other Public Bodies (Approved Investment Regulation 2 (i) and Schedule Part II)**

(i) **Permitted lending:**

Schedule Part II Ref	Details	Individual Sum	Individual Period
1 - 5	(See local authorities)		
6	Police, Fire, Civil Defence, and Waste Disposal Authorities	**£3m**	**1 year**
6	Passenger Transport Authorities	**£3m**	**1 year**
7	(See local authorities)		
8	Receiver for the Metropolitan Police	**£3m**	**1 year**
9 - 13	(not permitted)		
14	Levying bodies s.74 LGFA 1988:-		
	Residuary Bodies	**£2m**	**1 year**
15	Special levying bodies s.75 LGFA 1988		
16 - 17	(See local authorities)		

Schedule Part II Ref	Details	Individual Sum	Individual Period
18	The British Coal Corporation	}	
19	The British Railways Board	}	
20	The British Waterways Board	}	
21	The Civil Aviation Council	}	
22	London Regional Transport	}	
23	The Post Office	} £3m	1 year
24	The Commonwealth Devt. Corporation	}	
25	Nuclear Electric Limited	}	
26	Scottish Nuclear PLC	}	
27	United Kingdom Atomic Energy Council	}	

ANNEX - GLOSSARY OF TREASURY MANAGEMENT TERMS

TERM	EXPLANATION
BANK / BANKING INSTITUTION	In order to be called a **bank** and before it may accept **deposits,** an institution has to be authorised by the Financial Services Authority, which took over the regulation of banks from the Bank of England as a result of the Financial Services and Market Act 2000.
BROKER	An agent whose purpose is to bring together principals (borrowers and lenders) and facilitate efficient dealing. They charge a commission or brokerage fee (normally a percentage of the sum dealt) to the borrower - the lender pays no commission.
BUILDING SOCIETY	A well-known type of financial institution, authorised under the Building Societies Act 1986, whose traditional business of taking in small savings from individuals ('members') and lending out mortgages for house purchase has expanded in recent years to cover many additional financial services. The rankings given to **building societies** - e.g. top 5 - refer to the relative size in terms of asset size (published annually in *Butlers Building Society Guide*).
CALL DEPOSIT	A **notice deposit** on which the interest rate can be varied or repayment requested on the same day providing **notice** is given by mid-day.
CLEARING BANK	For the purpose of the Council's permitted lending list there are 7 major 'high-street' **clearing banks** (Barclays, HSBC, Lloyds-TSB, Abbey National, Royal Bank of Scotland (which now includes National Westminster), Halifax-Bank of Scotland and Co-operative.
CREDIT RATING	A measure of the perceived ability of an organisation (**bank** or top **building society**) to meet its interest and debt repayment obligations. Several specialist **credit rating** agencies exist - e.g. Moodys, Standard & Poors, and Fitch IBCA.
DEPOSIT (CASH DEPOSIT)	A non-tradeable interest-paying **investment**.
FIXED (INTEREST)	Refers to a **deposit** where the interest rate is determined on the start date and remains in force until maturity.
FOREIGN BANK	A **bank** which is incorporated outside the UK, but which may have a UK office or UK incorporated **subsidiaries**.
FUND MANAGER	A company providing professional expertise on managing **investments** in return for a fee, which is normally, a percentage of the funds managed or a fee based on a claimed performance.
INTERBANK	See **LIBOR** and **money market**.
INVESTMENT	A generic term from the lender's perspective, which includes cash **deposits**.

LIBID	See **LIBOR**.
LIBOR / LIBID	**LIBOR** and **LIBID** are the *averages* of the rates of interest at which major **banks** conduct business in the London **interbank money market** at 11 a.m. each business day: **LIBOR** (**L**ondon **i**nter**b**ank **o**ffered **r**ate) is the rate at which the major banks are prepared to lend (i.e. offer) money to the money market. **LIBID** (**L**ondon **i**nterbank **bid** rate) is the rate at which the reference banks are prepared to borrow (i.e. bid) money from the money market. Both **LIBOR** and **LIBID** rates are published daily in the ***Financial Times*** for periods ranging from **overnight** to 1 year. They are important to **local authorities** as 'benchmark' rates for assessing performance.
LOCAL AUTHORITY	For the purpose of investment, **local authority** means one of the *principal* authorities - i.e. County Councils; London Borough Councils and the City of London Corporation; Metropolitan Borough and City Councils; 'shire' and 'unitary' District, Borough, and City Councils (England and Wales); 'unitary', Regional, Islands, and District Councils (Scotland); and District Councils (Northern Ireland).
LONG-TERM DEPOSIT / INVESTMENT	Normally used to mean an **investment** for a period of 1 year or more.
MONEY MARKET	The process of wholesale lending and borrowing in the City of London, which is regulated by the Bank of England. The largest market is the **interbank** market, and other important markets are **local authorities** and **building societies**. Much business is arranged via money **brokers**.
MONEY MARKET FUNDS	Stand-alone pooled investment funds that actively invest their assets in a diversified portfolio of high-grade, short-term money market instruments.
NOTICE DEPOSIT	A **deposit** on which the interest rate can be varied or repayment made by either borrower or lender on giving a required period of **notice**. The most common types of **notice deposits** are **call**, 2 days or 7 days.
OVERNIGHT	The shortest **deposit** that can be made in the **money markets**, and which has the most volatile interest rate from day to day. '**Overnight**' refers to banking days - so that, for example, an '**overnight**' **deposit** made on the day before Good Friday would mature on the following Tuesday, a period of 5 days including the weekend and bank holidays.
SHORT-TERM DEPOSIT / INVESTMENT	Normally used to mean an **investment** for a period of between **overnight** and 364 days - i.e. less than 1 year from start to maturity.

SUBSIDIARY	Normally used to refer to a **banking institution**, which is wholly owned, by a **clearing bank**. Examples include Ulster Bank Belfast Ltd (**subsidiary** of Royal Bank of Scotland).
VARIABLE (INTEREST)	Refers to a **deposit** where the initial interest rate can be varied by giving the required period of **notice**.

8. INTERNAL AUDIT – MONITORING REPORT 20th November 2013

Report from:	Audit Manager
Contact Officer:	Ben Durrant, HW Controls & Assurance LLP
	Email: ben.durrant@midsussex.gov.uk
	Tel: (01444) 477241
Wards Affected:	All
Key Decision	No

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1. PURPOSE OF REPORT

The purpose of this report is twofold; to update the Committee on the progress of the 2013-2014 Internal Audit Plan and to report on the progress made in implementing previously agreed recommendations.

2. SUMMARY

2.1 The audit plan provides for a mix of coverage on fundamental systems, IT systems and service systems, which have been identified as potential risk areas. Appendix A summarises the progress to date on the plan.

2.2 Appendix B provides an update on the implementation of previously agreed recommendations.

3. RECOMMENDATIONS

The Audit Committee is asked to receive the report.

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4. REPORT TO AUDIT COMMITTEE

Progress on implementing previous recommendations

4.1 Appendix B shows details of three high priority recommendations which are being reported to this Committee for the first time. All three recommendations were raised as part of the recent Landscapes audit.

Progress against the 2013-14 Internal Audit plan as at 20th November 2013

4.2 In line with the audit programme for the current year we have issued reports for the following:

- Pitches and Pavilions
- Anti Fraud Work
- Land and Property
- Landscapes
- Sundry Debtors
- BACS

4.3 Additionally, we have scheduled the remaining audits for the rest of the year, the timings of which can be seen in appendix A.

4.4 The Use of Data audit has been removed from the audit plan following discussions with the Assistant Chief Executive and Performance and Partnerships BUL. This audit was originally included in the 2012/13 Internal Audit Plan at the request of the former Assistant Chief Executive but having postponed the work until this year it is felt that officers in post are already conducting sufficient exploratory work in this area and so an internal audit would not offer the Council any further assurance than it already receives.

Background Papers

Internal Audit reports relating to 2013-2014
Working papers relating to 2013-2014

Appendix A

Mid Sussex District Council
Internal Audit Plan 2013/14
Progress Report 20th November 2013

Audit Area	Rating	Budget/ Days	Provisional Timing – commencing	Fieldwork Commenced	Draft Report Issued	Management Responses Received	Target date for issue of Final	Final Report Issued	High Findings Reported to Audit Committee	Comments
Fundamental Systems										
NNDR – CenSus Partners	High	N/A	Qtr 3							Audit to be conducted by Adur
Council Tax – CenSus Partners	High	20	Qtr 3	28 Oct 2013						Audit to be conducted by Mid Sussex
Housing Benefits – CenSus Partners	High	N/A	Qtr 3							Audit to be conducted by Horsham
Payroll	High	5	Qtr 4							
Income Collection (Cashiers)	High	10	Qtr 3	18 Nov 2013						
Treasury Management	High	5	Qtr 4							
Payments (Creditors)	High	5	Qtr 4							
Sundry Debtors	High	5	Qtr 3	7 Oct 2013	17 Oct 2013	18 Oct 2013	25 Oct 2013	18 Oct 2013	N/A	
Capital Accounting & Asset Management	Medium	7	Qtr 4							
Budgetary Control	Medium	4	Qtr 3	11 Dec 2013						
Computer Audit										
Back-up and Disaster Recovery	High	5	Qtr 3							
Change and Configuration Management	High	7	Qtr 4							
BACS		5	Qtr 2	25 July 2013	21 Oct 2013				N/A	Awaiting management response
PSN		3	Qtr 1	17 June 2013						Delayed due to PSN failure

Audit Area	Rating	Budget/ Days	Provisional Timing – commencing	Fieldwork Commenced	Draft Report Issued	Management Responses Received	Target date for issue of Final	Final Report Issued	High Findings Reported to Audit Cttee	Comments
Required by Senior Management										
Procurement		6	Qtr 3	29 Oct 2013						
Pitches and Pavilions		6	Qtr 1	13 May 2013	24 May 2013	12 Sept 2013	19 Sept 2013	12 Sept 2013	N/A	
Anti Fraud Work		7	Qtr 2	9 Sept 2013	1 Oct 2013	21 Oct 2013	28 Oct 2013	28 Oct 2013	N/A	
Land and Property		7	Qtr 2	15 July 2013	12 Sept 2013	17 Sept 2013	24 Sept 2013	17 Sept 2013	N/A	
~~Use of Data~~		~~10~~	~~Qtr 3~~							Removed from the plan
Landscapes		10	Qtr 2	5 Aug 2013	13 Sept 2013	23 Oct 2013	30 Oct 2013	1 Nov 2013	20 Nov 2013	Limited assurance – 3 high priority recommendations

Draft report should be issued no more than 20 working days after debrief meeting.
Management Responses should be received no later than 10 working days after issue of draft report.
Final Report should be issued no later than 5 working days after Management Responses are received.

Landscapes
Issued: 1st November 2013

	Management Response, Responsible Officer and Current Status.	Implementation Dates Original	Revised
1. Cumulative expenditure in common areas The Senior Engineering Officer confirmed Contract Procedure Rules had not always been adhered to, particularly in cases where, for example, the need to get the job done quickly did not allow sufficient time for a local tender process to be formally carried out. He was also aware that accumulated expenditure with the same supplier or in the same areas may be exceeding the thresholds above which formal contract tendering exercises should be undertaken. **Risk** Staff may not be complying with the Council's Financial Procedure Rules. This could lead to purchases being made which are not offering the Council value for money. **Recommendation** Where staff suspect that cumulative expenditure with the same suppliers in the same areas is exceeding thresholds over which contract tendering procedures should be followed, they should be notifying the appropriate Business Unit Leader(s) and contacting Procurement officers in order to obtain suitable advice.	**Management Response – 1st November 2013** Staff endeavour to comply with all of the Council's Financial Procedure Rules. A further clarification and reminder of standing orders has been issued to all staff in Property and Landscapes. The issue of cumulative expenditure is known to officers and discussions are underway with the Procurement team to enter into already established framework agreements for playground works initially, followed by civil-related works. *[Principal Landscape Manager and Property & Asset Maintenance Manager]*	31/3/14	
2. Obtaining adequate quotations Testing was carried out on a sample of the 20 highest payments between August 2011 and August 2013 in relation to Landscapes to ensure that an adequate number of quotations had been sought in line with best practice. Testing identified the following weaknesses: - Four purchases between £10k and £15k had less than three written quotes to support the purchase. A further two purchases between £5k and £10k	**Management Response – 1st November 2013** A further clarification and reminder of standing orders has been issued to all staff in Property and Landscapes. A note has been issued to the team setting out the contract procedure rules and local tendering requirements for the Property and Asset team that includes the Senior Engineering Officer.	1/11/13	

	Management Response, Responsible Officer and Current Status.	Implementation Dates Original	Revised
also had less than three quotes on file; - Four purchases between £5k and £10k had no quotes at all on file; and - Three purchases showed evidence of more than one quote having been sought. However, the quotes were dated seven months (twice) and eleven months apart. **Risk** Where quotations are not being sought, particularly for higher value purchases, there is a risk that the Council is not getting value for money. There is also a risk of fraud where the administration of seeking and receiving quotations is not managed correctly. **Recommendation** Written quotations should be sought for purchases above a specified threshold unless there are valid, documented reasons. Written quotations should be sought and requested on the same day as far as reasonable practicable.	Better file notes for decisions made are to be kept. See also the response to recommendation 1 above. *[Principal Landscape Manager and Property & Asset Maintenance Manager]*		
3. Analysis of non-contracted expenditure Testing carried out during the audit indicated that expenditure in this area has not been periodically analysed in the past. However, discussion with the Landscapes BUL and the Property & Asset Maintenance BUL indicated that such an exercise had recently been commenced at the time of audit. Reports of all expenditure within Landscapes between August 2011 and August 2012, and also between August 2012 and August 2013 were reviewed and the following identified: - During 2011/12, seven suppliers were paid in excess of £20,000 for non-contract works; - During 2012/13 the corresponding figure was ten	**Management Response – 1st November 2013** This is a reflection of regular one-off jobs being given to reliable local contractors that are known to do a good job at a competitive price and within timescales needed by the client. The use of already established framework agreements will assist in rectifying this. It is intended to start using these agreements from next year. A monitoring system will be put in place to check expenditure patterns. *[Principal Landscape Manager and Property & Asset Maintenance Manager]*	31/3/14	

	Management Response, Responsible Officer and Current Status.	Implementation Dates Original	Revised
suppliers; and - Five suppliers received more than £20,000 during both one-year periods. **Risk** The Council might be making purchases on a one-off basis which could be made through a contract or framework agreement. Value for money may not be achieved. **Recommendation** A comprehensive analysis of non-contracted expenditure on works of this nature should be undertaken to identify opportunities where efficiency savings could be made.			

9. COMMITTEE WORK PROGRAMME 2013/14

Date	Agenda Item
25 June 2013	~~Annual Governance Statement 2012/13~~ ~~External Audit Business~~ ~~Treasury Management Policy Counterparty List~~ ~~Review of Treasury Management Activity 2012/13~~ ~~Internal Audit Annual Report 2012/13~~ ~~Internal Audit Monitoring Report~~ ~~Internal Audit – 2012-13 Recommendations~~
24 September 2013	~~Annual Governance Report 2012/13~~ ~~Financial Statements 2012/13~~ ~~Internal Audit Monitoring Report~~
20 November 2013	Annual Audit Letter (PS) External Auditor Progress Report Treasury Management Half Year Report (PS) Internal Audit Monitoring Report (PS)
20 March 2014	External Audit Plan for 2013/14 Audit (PS) Internal Audit Plan (PS) Internal Auditing Monitoring Report (PS)