

5. REVIEW OF TREASURY MANAGEMENT ACTIVITY 2011/12

REPORT OF: Peter Stuart, Head of Finance
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Wards Affected: All

Key Decision No

PURPOSE OF REPORT

1. The report sets out the Council's treasury management activity for the year ended 31 March 2012.

SUMMARY

2. All transactions are in order and the performance of the service has been excellent.

RECOMMENDATIONS

3. The Committee is requested to note the report..
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BACKGROUND

4. The Treasury Management function of this Council has been delivered by Adur-Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority.
5. The 2011-12 Treasury Management Annual Report produced by the Group Accountant Strategic Finance 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 industry knowledge, it would reward careful reading by those with an interest.
6. For those Members seeking a summary, paragraph 12.2 sets out the report in one sentence:

The Council's performance during the 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
7. The Group Accountant would welcome questions and queries from Members using the contact details above.

POLICY CONTEXT

8. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce an annual report by 30 September after the year end.

OTHER OPTIONS CONSIDERED

9. None.

FINANCIAL IMPLICATIONS

10. None.

OTHER MATERIAL IMPLICATIONS

11. None.

BACKGROUND PAPERS

None.

1. **SUMMARY**

- 1.1 This report summarises the treasury management transactions for the financial year 2011/2012. 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 local authority's cash flows and investments, 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). The Code was last updated in November 2011, albeit that the requirement under the code to have formalised arrangements for regularly reporting treasury management activity to Members is unchanged.

- 2.3 The reporting arrangements were last updated and adopted at the meeting of the Council in April 2012, at which the Treasury Management Strategy Statement and Annual Investment Strategy 2012/13-2014/15 was presented. This contained the requirement that actual performance shall be reported by way of an annual outturn report on the Council's treasury activity no later than 30 September after the financial year end. This report fulfils this requirement for 2011/12.

- 2.4 Accordingly, this report covers the:

- ◆ treasury portfolio position at the start and end of 2011/12
- ◆ borrowing strategy and outturn for 2011/12
- ◆ interest rate movements for 2011/12
- ◆ investment strategy and outturn for 2011/12
- ◆ compliance with treasury limits and Prudential indicators
- ◆ performance measures
- ◆ minimum revenue provisions (MRP) for repayment of debt
- ◆ incidence of other issues & matters

- 2.5 The present regulatory environment places importance on Members for the review and scrutiny of treasury management policy and activities. This report supports such review as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3. PORTFOLIO POSITION AT 31ST MARCH, 2012

3.1 The Council's position at the beginning and end of year was as follows:-

	Balance at 01.04.11 £m	Raised in Year £m	Repaid in Year £m	Balance at 31.03.12 £m
<u>Borrowing</u>				
PWLB	(1.591)	-	0.133	(1.458)
Temporary Borrowing	(2.000)	-	2.000	-
TOTAL BORROWING	(3.591)	-	2.133	(1.458)
<u>Investments:</u>				
In-house:				
Short Term	13.200	120.500	(121.950)	11.750
Long Term	2.000	9.000	(2.000)	9.000
With Fund Managers	-	-	-	-
TOTAL INVESTMENTS	15.200	129.500	(123.950)	20.750
NET INVESTMENTS	11.609	129.500	(121.817)	19.292

4. BORROWING STRATEGY AND OUTTURN FOR 2011/2012

4.1 The borrowing outturn for 2011/12 is summarised below :

	Average Interest Rate	Balance at 01.04.11 £m	Raised in Year £m	Repaid in Year £m	Balance at 31.03.12 £m
<u>Long Term Borrowing</u>					
PWLB - Fixed rate	4.36%	(1.591)	-	0.133	(1.458)
<u>Short Term</u>					
Temporary Borrowing	1.2%	(2.000)	-	2.000	-
TOTAL BORROWING	2.94%	(3.591)	-	2.133	(1.458)

4.2 Temporary borrowing relates to short term finance for The Brow, Burgess Hill as contained in the capital programme for 2010/11. This finance was met through two temporary loans of £1m each from local authorities conducted on 18 and 19 November 2011 at a rate of 1.20%. The loans were transacted for a period of 364 days, and were repaid in full on maturity. No new borrowing was conducted in 2011/12.

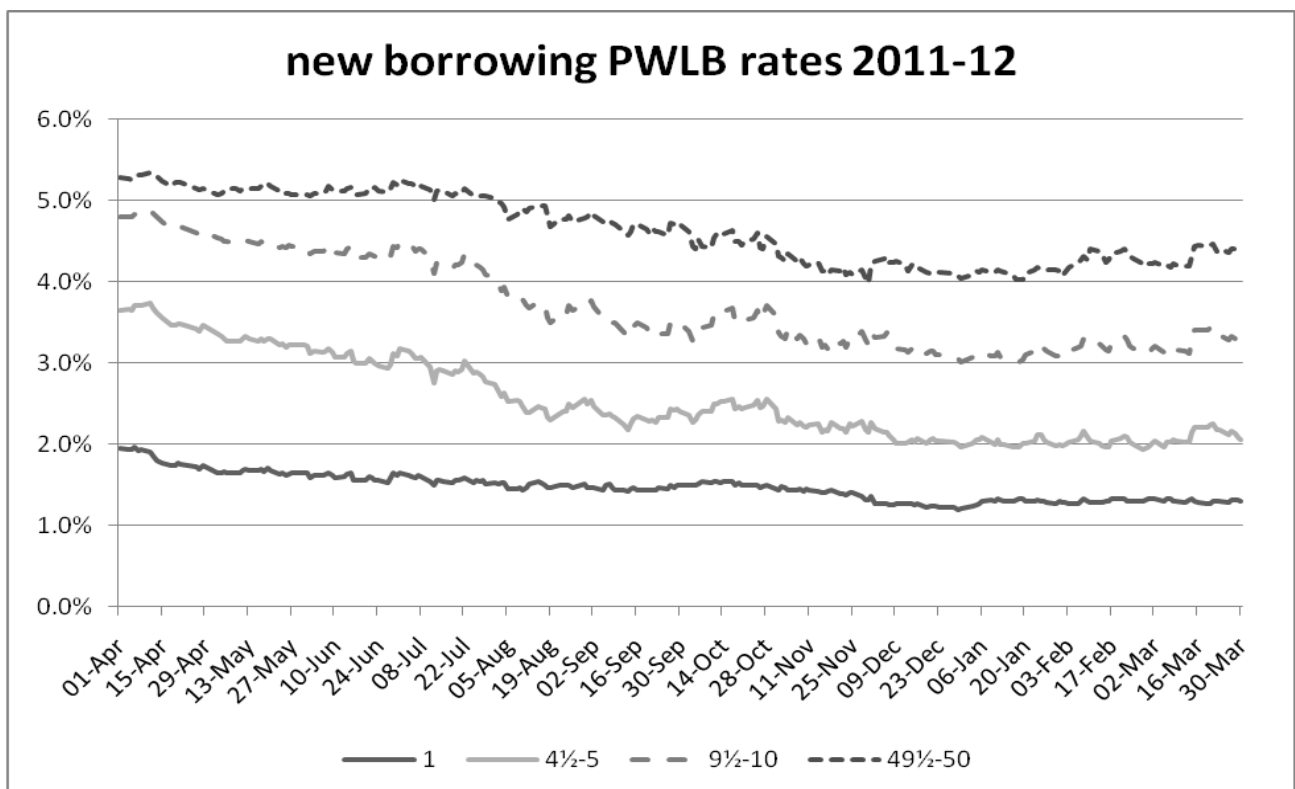
4. BORROWING STRATEGY AND OUTTURN FOR 2011/2012

4.3 The Council's long term debt comprises two loans from the Public Works Loans Board (PWLB), being :

Loan Number	Start Date	End Date	Original Loan Amount £	Interest Rate	Balance at 31. 03. 2012*
494369	06/03/2008	01/03/2023	1,700,000	4.55%	1,357,425.88
495726	27/07/2009	30/06/2014	205,000	2.23%	105,932.73
TOTAL LOANS			1,905,000		1,463,358.61
(* includes accrued interest)					

4.4 The total cost of interest on all borrowing for 2011/12 was £82,495 (£80,095 for 2010/11) and is within the budgetary estimates provided for at the start of the year.

4.5 Although no new borrowing was incurred in 2011/12, the graph below shows how PWLB borrowing rates fell to historically very low levels during the year.



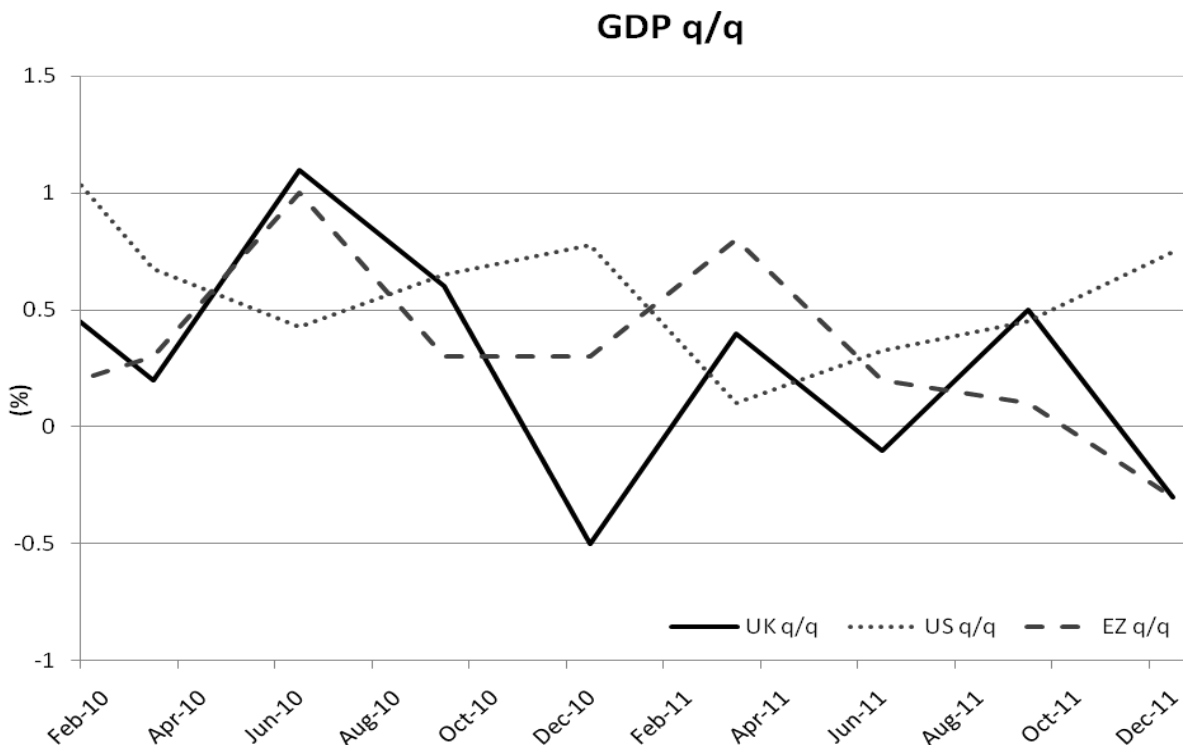
5. THE ECONOMY AND INTEREST RATES 2011/12

5.1 The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

5. THE ECONOMY AND INTEREST RATES 2011/12

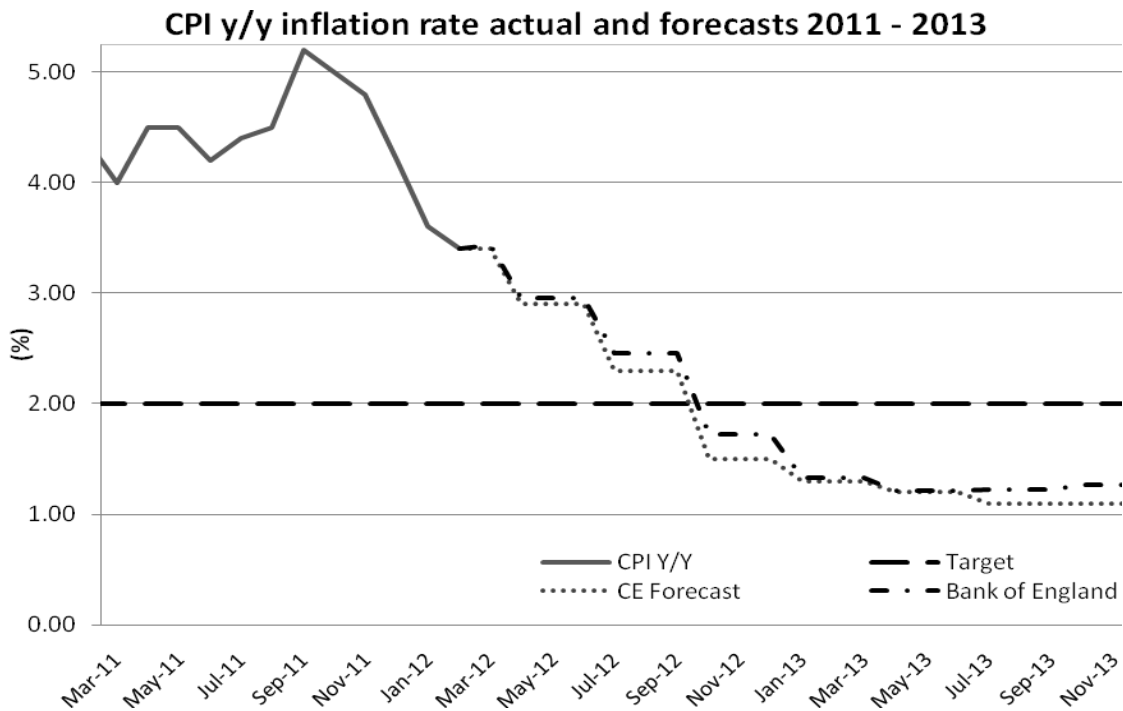
5.2 The original expectation for 2011/12 was that the Bank Rate would start gently rising from quarter 4 of 2011. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting, and weak growth in the biggest export market – the EU.

5.3 The EU Sovereign debt crisis grew in intensity during the year until February 2012 when a second bailout package was eventually agreed for Greece. In the UK, weak domestic growth resulted in the Bank of England's Monetary Policy Committee increasing quantitative easing by £75bn in October 2011, and by another £50bn the following February. The UK GDP is compared to the USA and Eurozone in the following graph:



5.4 The Bank Rate therefore ended the financial year unchanged at 0.5%. Earlier in the year CPI inflation peaked in September 2011 at 5.2%, before falling to 3.4% in February 2012.

5. THE ECONOMY AND INTEREST RATES 2011/12



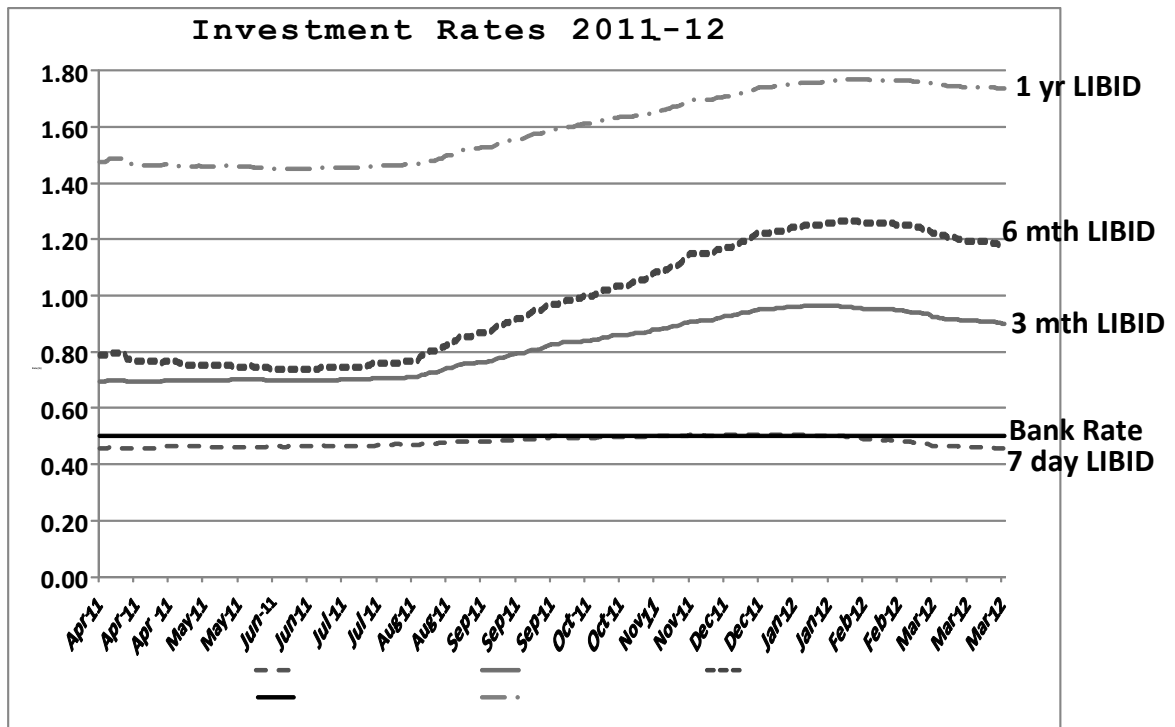
- 5.5 Gilt yields fell for much of the year, until February, as concerns continued building over the EU debt crisis. This resulted in safe haven flows into UK gilts which (together with the two UK packages of quantitative easing) combined to depress PwLB rates to historically low levels, as depicted in Para 4.5 above

Investment Rates

- 5.6 The tight monetary conditions following the 2008 financial crisis continued through 2011/12 with little material movement in the shorter term deposit rates. However, one month and longer rates rose significantly in the second half of the year as the Eurozone crisis grew. Bank Rate remained at its historic low of 0.5% throughout the year while market expectations of the imminence of monetary tightening were gradually pushed further and further back during the year to the second half of 2013 at the earliest.
- 5.7 Investment rates reflected risk premiums that helped raise money market deposit rates for periods longer than 1 month. The widespread and multiple downgrades of the ratings of many banks and sovereigns, alongside continued Eurozone concerns and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

5. THE ECONOMY AND INTEREST RATES 2011/12

5.8 The investment rates for 2011/12 achieved the following outcomes:



6. INVESTMENT STRATEGY AND OUTTURN FOR 2011/12

Investment Strategy

- 6.1 The Council's investment strategy aimed to secure investment interest for 2011/12 in the region of £191,000 as contained in the Budget Report. This equated to average returns on all investments of 1.067%. 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 outturn for the year resulted in total investment income of £354,973, an increase of £163,973 over the budgeted amount. The outturn equates to an average return on all investments of 1.43%.
- 6.3 Ninety transactions were conducted in the year, amounting to a turnover of funds of £129.5m (£118.875m for 2010/11). Of these transactions, eight were for long term investments of £1-2m each (£9m in total) for periods of 1-2 years, and at rates of between 1.30 - 3.10%. All other investments were less than 1 year ranging in returns of 0.50% for overnight money to 2.089% for 364 day deposits.
- 6.4 The improvement in performance over budgeted returns is reflected in the increase in available funds for investment which allowed more opportunity for long term deposits. Total funds increased by £5.55m from £15.2m at the start of the year to £20.75m by the end, peaking at £37.30m on 1 November, 2011. However, the average funds balance for the year was £24.7m. Adding to the benefit of the increase in funds, the timing of the long term investments mostly coincided with the rise in interest rates in the second half of the year (See graph in Para. 5.7 above).

6. INVESTMENT STRATEGY AND OUTTURN FOR 2011/12

Investment Strategy

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

2011/12 Movement	Balance 01.04.11 £m	Raised in Year £m	Repaid in Year £m	Balance 31.03.12 £m	% of Funds at 31.3.12
Investments					
Long-term > 1 year	2.000	9.000	(2.000)	9.000	43%
Short-term < 1 year	13.200	120.500	(121.950)	11.750	57%
TOTAL	15.200	129.500	(123.950)	20.750	100%

	No. of Trans- actions	Amount Invested £000	Average Deal Size £000	Minimum Deal Size £000	Maximum Deal Size £000
<u>Long-term</u> <u>(> 1 year)</u>					
Banks	7	8,000	1,143	1,000	2,000
Building Societies	1	1,000	1,000	1,000	1,000
Total Long Term	8	9,000	1,125	-	-
<u>Short-term</u> <u>(< 1 year or less)</u>					
Council's own Bank	10	12,250	1,225	1.000	2.000
Other Banks	17	22,500	1,324	1.000	3.000
Building Societies	15	29,000	1,526	1.000	2.000
Money Market Funds	36	56,750	1,576	0.300	3.000
Total Short-term	82	120,500	1.470	-	-
OVERALL TOTAL	90	129,500	1.439	-	-

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 (TMSS). The TMSS for 2011/12 was reported to Council in March 2011. 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 treasury management limits and indicators for 2011/12 are compared with the outturn position, and previous year's outturn in Appendix 2. Actual performance was within the limits determined at the start of the year.

8. PERFORMANCE MEASURES

- 8.1 The Council's outturn performance in 2011/12 has been compared to an independently obtained Benchmark for local authorities with the following results:

DEBT	Mid Sussex DC			All Other Member Councils	
	Average Interest Rate % for 2011/12	Debt at 31.03.12 £m	% of Debt at 31.03.12	Average Interest Rate % for 2011/12	% of Debt at 31.03.12
Short-term fixed	1.20%	-	-	1.1%	1.6%
Long term Fixed	4.36%	1.458	100%	4.8%	76%

- 8.2 The comparison shows that the rate of interest on the Council's debt is below the average benchmark for long term debt, but was slightly higher in the year for the benchmark for temporary borrowing – albeit that the actual rate is determined by market rates available at the time the borrowing is undertaken.

INVESTMENTS	Mid Sussex Average Balances Held in Year (£m)	Mid Sussex Rate of Return %	Benchmark Average Return %
Short-term Fixed	15.136	1.35	1.2
Money Market Funds	3.171	0.74	0.8
Long-term Fixed	6.433	1.97	2.5
Combined Return	24.740	1.43	1.2

- 8.3 The council's combined investment returns were above the overall benchmark average, albeit that there were marginal differences either way for the different investment categories. These differences are difficult to know why without further information on the composition of the benchmarks.

9. AMENDMENTS TO INVESTMENT COUNTERPARTY LENDING LIST

- 9.1 The Counter Party Approved Lending List was revised as part of the amendments to the Treasury Management Policy reported to, and approved by, the Audit Committee at its meeting of 13 December 2011,
- 9.2 The revisions agreed by Members at that time increased the individual investment limits of the banks included on the Council's approved lending list from £3m to £4m, and the Group Limits from £3m to £5m - excepting for the Council's own bank (for which the individual and group limit was already £5m) and Ulster Bank (for which the individual limit was retained at £1m).
- 9.3 The revision to the investment limits was designed to allow more funds to be deposited with the UK central banks, while retaining existing limits for building societies. The shift in emphasis towards banks derived from the downgrading by Moody's of 12 UK financial institutions on 7 October, which was followed on 13 October by Fitch lowering the support ratings. Since then there have been numerous further down grading of banking institutions, but this has not hampered the Council's ability to place deposits within its investment criteria and limits.

9. **AMENDMENTS TO INVESTMENT COUNTERPARTY LENDING LIST**

- 9.4 This is reflected in Appendix 1 which shows the maximum exposure of the Council to any of its approved investment counterparties during the year, and the composition of investments at 31 March 2012. The Approved List of Counterparties is reproduced at Appendix 3.

10. **MINIMUM REVENUE PROVISIONS (MRP) FOR REPAYMENT OF DEBT**

- 10.1 The Council's policy is to provide for MRP on an annuity basis over the life of the loans taken out. An annuity is a fixed annual sum repaid to the lender comprising interest and principal. The principal component of MRP increases each year over the asset life as the proportion of interest outstanding reduces as the debt is repaid.
- 10.2 For 2011/12 an amount of £1.715m has been set aside in the annual accounts as the MRP for repayment of debt, which includes an element for the repayment of short term finance for The Brow, Burgess Hill – Para 4.2 refers.

11. **OTHER ISSUES AND MATTERS**

Revisions To CIPFA Code of Practices

- 11.1 In November 2011 CIPFA published a revised Code of Practice for Treasury Management in the Public Services, and an updated Prudential Code for Capital Finance in Local Authorities.
- 11.2 The revisions largely addressed changes necessitated by the Central Government's implementation (from 1 April 2012) of the Self-Financing Regime for Housing Authorities operating a Housing Revenue Account. As Mid Sussex DC is not a housing authority then it is largely unaffected by the revision to the code.
- 11.3 The one change that does impact on the Council is the introduction from 2012/13 of a new Prudential Indicator for "Net Debt as a Percentage of Gross Debt". This indicator was described in the Treasury Management Strategy and Annual Investment Strategy Report 2012/13 submitted to Council in April 2012.

Shared Services Arrangements

- 11.4 The Council has entered into a shared services arrangement (SSA) for the provision of treasury management services. Under this arrangement, the treasury management function is performed by the in-house treasury management team formed out of partnership working between Adur District Council and Worthing Borough Council. The treasury management team is based at Worthing Town Hall, but services all three councils' treasury management operations from this location utilising similar banking arrangements.
- 11.2 The SSA is provided under a Service Level Agreement that commenced on 18 October 2010, and which defines the respective roles of the client and provider authorities for a period of three years.

12. CONCLUSION

- 12.1 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 an annual outturn report on treasury management activity before 30 September, 2012.
- 12.2 The Council's performance during the 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.

13. RECOMMENDATION

- 13.1 The Council is recommended to note the Annual Report for 2011/12.

Principal Author and Contact Officer: Tony Jackson – Extension 1261

- Background Papers:
- (1) Treasury Management Strategy Statement and Annual Investment Strategy 2011/12 – 2013/14 (Report To Council, March, 2011)
 - (2) Half-Year In-House Treasury Management Operations Report 2011/12 (Audit Committee, 13 December, 2011)
 - (3) Template Annual Treasury Report 2011/12 (Sector)
 - (4) CIPFA Treasury Management Code of Practice in the Public services and Cross Sectoral Guidance (Nov 2011)
 - (5) CIPFA Prudential Code of Practice for Capital Finance in Local Authorities (Nov 2011)

MAXIMUM INVESTMENTS WITH EACH COUNTERPARTY IN 2011/2012

Name of Counterparty	Maximum Individual Investment	Maximum Holdings At Any Time	Balance at 31st March, 2012
	£m	£m	£m
<u>Fixed Term Cash Deposits</u>			
Banks			
Barclays Bank	1.000	4.000	4.000
Clydesdale Bank	1.000	3.000	1.000
Lloyds TSB	1.000	4.000	3.000
Royal Bank of Scotland	1.000	3.000	3.000
Santander UK	3.000	3.000	2.500
Building Societies			
Coventry	2.000	3.000	-
Leeds	1.000	1.000	-
Nationwide	2.000	3.000	3.000
Newcastle	2.000	2.000	-
Skipton	2.000	3.000	1.000
West Bromwich	2.000	2.000	-
<u>Instant Access Accounts</u>			
Santander UK	1.000	3.000	-
Royal Bank of Scotland (RBS)	1.000	1.500	-
<u>Commercial Money Markets</u>			
Invesco	3.000	3.000	-
Federated Prime Rate	3.000	3.000	-
<u>Council's Own Bank</u>			
Co-operative Bank	2.000	5.000	3.250
TOTAL INVESTMENTS AT 31ST MARCH, 2012			20.750

COMPLIANCE WITH PRUDENTIAL INDICATORS 2011/12

1. PRUDENTIAL INDICATORS	2010/11	2011/12	2011/12
Extract from budget	Actual	Estimate	Actual
	£'000	£'000	£'000
Capital Expenditure Non - HRA	3,431	3,084	2,811
Ratio of financing costs to net revenue stream Non - HRA	1.0%	-1.5%	11.27%
Borrowing Outstanding Brought forward 1 April	1,591	3,591	3,591
Carried forward 31 March	3,591	1,465	1,458
Net in year borrowing/(Repayment)	2,000	-2,126	-2,133
Capital Financing Requirement as at 31 March Non – HRA	4,486	1,537	2,263
Annual change in Cap. Financing Requirement Non – HRA	£1,510	-2,093	-2,223
Incremental impact of capital investment decisions Increase in council tax (band D) per annum	-£1.09	£4.11	£26.38
2. TREASURY MANAGEMENT INDICATORS	2010/11	2011/12	2011/12
	Actual Debt at 31.3.11	Original Limit	Actual Debt at 31.03.12
Authorised Limit for external debt - Borrowing	£3,591	£6,000	£1,458
Other long term liabilities	-	-	-
Operational Boundary for external debt Borrowing	£3,591	£4,000	£1,458
Other long term liabilities	-	-	-

2. TREASURY MANAGEMENT INDICATORS	2010/11	2011/12	2011/12
	Actual Limit at 31.3.11	Original Limit	Actual Debt at 31.03.12
Upper limit for fixed interest rate exposure (Investments net of Borrowing)	84.3%	100%	94.6%
Upper limit for variable rate exposure (Investments net of Borrowing)	16.0%	75%	5.4%
Upper limit for total principal sums invested for over 364 days (per maturity date)	13%	50%	43%

Maturity structure of fixed rate borrowing during 2011/12	Proportion of Total Fixed rate Borrowing
under 12 months	55%
12 months and within 24 months	0%
24 months and within 5 years	5%
5 years and within 10 years	0%
10 years and above	40%

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: <ul style="list-style-type: none"> • HSBC Bank plc 	£5m		
			£4m	5 years
2	The Royal Bank of Scotland Group: <ul style="list-style-type: none"> • The Royal Bank of Scotland plc • National Westminster Bank plc • Ulster Bank Belfast Limited 	£5m		
			£4m	5 years
			£4m	5 years
			£1m	1 year
3	Lloyds TSB Group:: <ul style="list-style-type: none"> • Lloyds TSB Bank plc • Halifax plc • Bank of Scotland plc • HBOS Treasury Services plc 	£5m		
			£4m	5 years
			£4m	5 years
			£4m	5 years
4	Barclays Group: <ul style="list-style-type: none"> • Barclays Bank plc 	£5m		
			£4m	5 years
5	Santander Group: <ul style="list-style-type: none"> • Santander UK plc (incorporating Alliance and Leicester & Abbey National) 	£5m		
			£4m	5 years
6	The Co-operative Bank p.l.c.		£5m	5 years
7	Clydesdale Bank		£4m	5 years

(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 (Incorporating Norwich and Peterborough)	£3m	3 years
3	Coventry	£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	Nottingham	£3m	3 years
10	Progressive	£3m	3 years
11	Cumberland	£3m	3 years
12	National Counties	£3m	3 years
13	Saffron	£3m	3 years
14	Cambridge	£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	
Ignis 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 Pramerate 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.

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

(e) **Nationalised Industries and other Public Bodies (Approved Investment Regulation 2 (i) and Schedule Part II)**(i) **Permitted lending:**

Schedule Part II Ref	Details	Individual	
		Sum	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	Period
18	The British Coal Corporation	}	1 year
19	The British Railways Board	}	
20	The British Waterways Board	}	
21	The Civil Aviation Council	}	
22	London Regional Transport	}	
23	The Post Office	} £3m	
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 <i>Butlers Building Society Guide</i>).
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.

TERM	EXPLANATION
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	<p>LIBOR and LIBID are the <i>averages</i> of the rates of interest at which major banks conduct business in the London interbank money market at 11 a.m. each business day:</p> <p style="padding-left: 40px;">LIBOR (London interbank offered rate) is the rate at which the major banks are prepared to lend (i.e. offer) money to the money market.</p> <p style="padding-left: 40px;">LIBID (London interbank bid rate) is the rate at which the reference banks are prepared to borrow (i.e. bid) money from the money market.</p> <p>Both LIBOR and LIBID rates are published daily in the <i>Financial Times</i> for periods ranging from overnight to 1 year. They are important to local authorities as 'benchmark' rates for assessing performance.</p>
LOCAL AUTHORITY	For the purpose of investment, local authority means one of the <i>principal</i> 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.

TERM	EXPLANATION
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 .

6. INTERNAL AUDIT – MONITORING REPORT 26th June 2012

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

1. PURPOSE OF REPORT

The purpose of this report is twofold; to update the Committee on the progress of the 2011-2012 and 2012-13 Internal Audit Plans and to report on the progress made in implementing previously agreed recommendations.

2. SUMMARY

- 2.1 The audit plans provide 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 both plans.
- 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.

4. REPORT TO AUDIT COMMITTEE

Progress on implementing previous recommendations

- 4.1 The outstanding recommendations from previous Internal Audit reports have been reviewed, with the latest situation and relevant comments included in Appendix B.

Progress against the 2011-12 Internal Audit plan as at 26th June 2012

- 4.2 All of the audits within the plan have now been completed. There were no high priority recommendations for any of the audits carried out by Internal Audit. However, one high priority recommendation was raised as part of the Council Tax audit conducted on behalf of the CenSus Partners by Horsham's Internal Audit team. See 4.4 below.
- 4.3 This has been the second year where audit departments of the three CenSus Partners have worked together and shared the outputs of their audit work. We have reviewed the NNDR element of CenSus for each of the partners with Housing Benefits and Council Tax being reviewed by Adur and Horsham respectively.

- 4.4 The Internal Auditors from Horsham have reviewed Council Tax. One high priority recommendation was raised for this audit which affects Mid Sussex District Council. Audit testing found that no reviews had been carried out in relation to exemptions and discounts cases during 2011 with the exception of single person discounts. The auditor was informed that this was due to the Systems Administration Team being involved in work in the development of standard letters for these. This will be addressed during 2012/13 and will be followed up as part of the 2012/13 audit of this area.
- 4.5 There were some minor changes to the plan during the year following the consideration of the potential value the audits planned would add to the Council. The Partnerships audit was removed from the plan at the request of the Assistant Chief Executive and the Staff Training audit was deferred until 2012-2013 at the request of the Head of Finance, ICT and HR.

Progress against the 2012-13 Internal Audit plan as at 26th June 2012

- 4.6 In line with the audit programme for the current year we have completed and issued the final report for Housing Needs (Temporary Accommodation). Work is also in progress on both the Purchasing & Fuel Card and Banking Arrangements audits.
- 4.7 Additionally, we have scheduled the remaining audits for the rest of the year, the timings of which can be seen in appendix A.

Background Papers

Internal Audit reports relating to 2011-2012 and 2012-2013
Working papers relating to 2011-2012 and 2012-2013

**Mid Sussex District Council
Internal Audit Plan 2011/12
Progress Report 26th June 2012**

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	25	Qtr 3	Oct 2011	23 Feb 2012	26 Mar 2012	2 Apr 2012	26 Mar 2012	N/A	
Council Tax – CenSus Partners	High	N/A	Qtr 3	Nov 2011	N/A	N/A	N/A	30 Mar 2012	26 Jun 2012	Audit conducted by Horsham
Housing Benefits – CenSus Partners	High	N/A	Qtr 3	Nov 2011	N/A	N/A	N/A	9 Feb 2012	N/A	Audit conducted by Adur
Payroll	High	5	Qtr 4	Jan 2012	15 Mar 2012	25 May 2012	1 June 2012	25 May 2012	N/A	
Income Collection (Cashiers)	High	10	Qtr 3	Nov 2011	20 Dec 2011	21 Dec 2011	30 Dec 2011	21 Dec 2011	N/A	
Treasury Management	High	5	Qtr 4	Feb 2012	23 Feb 2012	27 Feb 2012	5 Mar 2012	28 Feb 2012	N/A	
Payments (Creditors)	High	5	Qtr 4	Feb 2012	16 Mar 2012	22 Mar 2012	29 Mar 2012	26 Mar 2012	N/A	
Sundry Debtors	High	5	Qtr 3	Nov 2011	4 Jan 2012	4 Jan 2012	11 Jan 2012	12 Jan 2012	N/A	
Capital Accounting & Asset Management	Medium	7	Qtr 4	Jan 2012	23 Feb 2012	27 Feb 2012	5 Mar 2012	28 Feb 2012	N/A	
Budgetary Control	Medium	4	Qtr 4	Jan 2012	23 Jan 2012	23 Jan 2012	30 Jan 2012	25 Jan 2012	N/A	
Computer Audit										
Resource Link - Payroll	High	4	Qtr 1	June 2011	24 Aug 2011	21 Sept 2011	5 Oct 2011	28 Sept 2011	N/A	
Change Management	High	8	Qtr 3	Jan 2012	2 May 2012				N/A	
External Data Transmission	High	8	Qtr 3	Feb 2012	15 June 2012				N/A	
Website Management	High	8	Qtr 3	Jan 2012	2 May 2012	18 May 2012	18 May 2012	18 May 2012	N/A	
Gsi CoCo v4.1	High	6	Qtr 4	Mar 2012	14 June 2012	14 June 2012	15 June 2012	15 June 2012	N/A	

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										
Anti Fraud & Corruption	High	5	Qtr 2	July 2011	21 Feb 2012	21 Feb 2012	28 Feb 2012	21 Feb 2012	N/A	
Debt Recovery	Medium	5	Qtr 2	Aug 2011	30 Aug 2011	28 Sept 2011	5 Oct 2011	28 Sept 2011	N/A	
Elections & Electoral Management	High	6	Qtr 2	July 2011	14 Oct 2011	15 Nov 2011	22 Nov 2011	15 Nov 2011	N/A	
Employee Loans & Mortgages	Medium	6	Qtr 2	July 2011	30 Aug 2011	28 Sept 2011	5 Oct 2011	27 Sept 2011	N/A	
Insurance	Medium	6	Qtr 2	Sept 2011	8 Sept 2011	15 Sep 2011	22 Sept 2011	16 Sept 2011	N/A	
Abandoned Vehicles	Medium	1	Qtr 2	Aug 2011	26 Aug 2011	28 Sept 2011	5 Oct 2011	28 Sept 2011	N/A	
Emergency Planning	High	5	Qtr 1	May 2011	29 June 2011	29 June 2011	6 July 2011	30 June 2011	N/A	
Dog Warden & Pest Control	Medium	5	Qtr 1	June 2011	17 Aug 2011	21 Nov 2011	28 Nov 2011	22 Nov 2011	N/A	
Car Parks	High	5	Qtr 2	July 2011	12 Aug 2011	15 Aug 2011	22 Aug 2011	15 Aug 2011	N/A	
Lone Worker	High	4	Qtr 4	Feb 2012	30 Apr 2012	3 May 2012	11 May 2012	9 May 2012	N/A	
Disabled Facilities Grants	Medium	6	Qtr 3	Nov 2011	5 Dec 2011	6 Dec 2011	13 Dec 2011	8 Dec 2011	N/A	
Partnerships	High	8	Qtr-2	N/A	N/A	N/A	N/A	N/A	N/A	Removed from plan
Staff Training	Medium	6	Qtr-4	N/A	N/A	N/A	N/A	N/A	N/A	Delayed until 2012/13

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.

**Mid Sussex District Council
Internal Audit Plan 2012/13
Progress Report 26th June 2012**

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 Horsham
Council Tax – CenSus Partners	High	N/A	Qtr 3							Audit to be conducted by Adur
Housing Benefits – CenSus Partners	High	25	Qtr 3							Audit to be conducted by Mid Sussex
Payroll	High	5	Qtr 4							
Income Collection (Cashiers)	High	10	Qtr 3							
Treasury Management	High	5	Qtr 4							
Payments (Creditors)	High	5	Qtr 4							
Sundry Debtors	High	5	Qtr 3							
Capital Accounting & Asset Management	Medium	7	Qtr 4							
Budgetary Control	Medium	4	Qtr 3							
Computer Audit										
Programme and Project Management	High	10	Qtr 3							
Service and Support (ITIL service desk)	High	5	Qtr 3							
ICT Strategy	High	8	Qtr 4							
Resource Link	High	8	Qtr 2							
PSN Compliance (Formally GSi CoCo Compliance)	High	2	Qtr 4							

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										
Housing Needs (Temporary Accommodation)		8	Qtr 1							
Purchasing and Fuel Cards		6	Qtr 1							
Banking Arrangements		5	Qtr 1							
Staff Training		6	Qtr 2							
Facilities Management Contracts		15	Qtr 2							
Corporate Governance (Follow-up of 2010/11 audit)		2	Qtr 2							
NNDR Discretionary Rate Relief		5	Qtr 2							
Risk Management		6	Qtr 2							
Contact Centre		5	Qtr 2							
Use of Data		10	Qtr 2							
Local Land Charges		7	Qtr 3							
Design and Print		5	Qtr 4							

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.

**Income Collection
Issued: 31st April 2010**

	Management Response, Responsible Officer and Current Status.	Implementation Dates Original Revised	
<p><u>1. Financial Management System (FMS) and General Ledger Reconciliation</u> Reconciliations between the FMS System and the General Ledger ensure that transactions are accurately recorded in the accounting system. It is therefore good practice to undertake a reconciliation of the two systems on a regular monthly basis.</p> <p>It was noted at the time of the audit (March 2010) that the automated reconciliation process had not been re-introduced, but the level of the 'Un-matched' entries had improved/reduced since the February 2009 internal audit review. A monthly manual reconciliation has been in place this year with a year to date variance showing as £59.18. In addition, the Group Accountant with no independent verification of the process performs the reconciliation.</p> <p>Risk: Inability to accurately reconcile the bank account could lead to financial loss and incorrect postings.</p> <p>Recommendation: The automated bank reconciliation of the Income Collection system to the General Ledger should be introduced and completed on a monthly basis with an independent review.</p> <p>In addition, the manual and/or automated reconciliation should be signed and dated by the duly authorised independent reviewing officer. Any discrepancies should be investigated and reported as required.</p>	<p>Management Response – 5th April 2011 The manual reconciliation is continuing – we will continue to monitor the progress towards implementing the FMS module. <i>[Group Accountant]</i></p> <p>Management Response – 28th June 2011 The manual reconciliation is continuing – we will continue to monitor the progress towards implementing the FMS module. <i>[Group Accountant]</i></p> <p>Management Response – 27th September 2011 The manual reconciliation is continuing – the FMS module has recently been implemented but is still undergoing testing. It is expected that the FMS module will 'go live' by 31 October 2011. <i>[FMS Support Team]</i></p> <p>Management Response – 13th December 2011 The CIVICA consultant has been onsite and the automated bank reconciliation has been re-started to balance the bank statement and GL on a daily basis. There is however a GL variance that is made up of cash in transit that currently needs a manual spreadsheet to reconcile it. An appointment to go to Brighton Council where they use the same systems has been arranged to see how they reconcile their system. <i>[FMS Support Manager]</i></p>	<p>30/09/10</p>	<p>31/10/11</p> <p>31/12/11</p>

	Management Response, Responsible Officer and Current Status.	Implementation Dates	
		Original	Revised
	<p>Management Response – 14th March 2012</p> <p>Since the automated system was re-started we have been able to reconcile the bank statement to the Council’s cash receipting system (Icon) on a daily basis. However, the further reconciliation to the general ledger needs to be completed outside of this system.</p> <p>The expert advice received from Brighton Council provided us with the strategy required in order to achieve this reconciliation. However, we were also advised that the process would take longer than the Audit Committee deadline allowed.</p> <p>As an interim measure, it was decided to resurrect the spreadsheet reconciliation system that was last used by the Group Accountant in June 2011.</p> <p>A great deal of resources have been assigned to this process, the result of which is that September, October, December, January and February have now been successfully reconciled. The other three months only have minor discrepancies. Going forward, the spreadsheet reconciliation will be carried out between the daily bank statement and general ledger transactions on a monthly basis until the automated system is fully implemented.</p> <p>As all available resources have been going into the spreadsheet system no further progress has been made on the automated system. A decision has been made to postpone the full implementation of the automated system until the next financial year so that we can ensure the reconciliation is completed in a timely fashion (using the spreadsheet system). Due to pressure of other projects, no target date has been set.</p> <p><i>[FMS Support Manager]</i></p>		N/A
	<p>Management Response – 26th June 2012</p> <p>The bank reconciliation is now successfully being carried out on the Finance Systems Team’s spreadsheet system which reconciles the bank statement and general ledger balances on both a daily and cumulative basis.</p> <p>During 2012/13 the Finance Systems Team will analyse the work involved in creating a reconciliation between the automated system and the general ledger and then compare the work involved with the team’s spreadsheet system so that a decision can be made regarding which is the most efficient.</p> <p><i>[FMS Support Manager]</i></p>		N/A

	Management Response, Responsible Officer and Current Status.	Implementation Dates Original Revised	
<p><u>1. Policies and Procedures</u> There is no completed overarching information governance strategy.</p> <p>It was noted that work was in progress via the Census partnership.</p> <p>Risk: The lack of an efficient corporate approach leading to poor value for money and a failure to comply with legislation leading to fines / prosecution.</p> <p>Recommendation: The information governance strategy should be completed that sets out a framework and route map for implementing information governance at the Council.</p>	<p>Management Response – 28th June 2011</p> <p>The information governance strategy will be completed which sets out a framework and route map for implementing information governance at the Council.</p> <p>In particular, the strategy will set out the overarching objectives for information governance, how these will be achieved, the resources required and the timescales for implementation.</p> <p>This will incorporate elements for data protection, freedom of information and records management. The strategy will set out an approach for monitoring compliance with all relevant legislation.</p> <p>When developed; the strategy will have responsibility assigned at an appropriately senior level.</p> <p><i>[Senior Service Improvement Officer]</i></p> <p>Management Response – 27th September 2011</p> <p>A draft strategy is in an advanced stage and it is expected that it will be submitted formally to the cabinet member for Finance and Service Delivery during the early part of October 2011.</p> <p><i>[Business Unit Leader - Member Support and Partnerships]</i></p> <p>Management Response – 13th December 2011</p> <p>The Better Services Advisory Group has requested a report on the draft Information Governance Strategy. The Cabinet Member has agreed that BSAG should consider the strategy before it is submitted for his endorsement. BSAG will meet on 1 February 2012. The draft strategy will be considered by Management Team in January, prior to going to BSAG.</p> <p><i>[Business Unit Leader - Member Support and Partnerships]</i></p>	<p>31/8/11</p>	<p>31/10/11</p> <p>29/2/12</p>

	Management Response, Responsible Officer and Current Status.	Implementation Dates	
	<p>Management Response – 14th March 2012</p> <p>As a result of coordinated working by all councils in the CenSus Partnership, the Information Governance Strategy has now been re-drafted as a cross-council strategy, and in that form will be presented to Council in April for adoption by MSDC.</p> <p><i>[Business Unit Leader - Member Support and Partnerships]</i></p> <p>Management Response – 26th June 2012</p> <p>At a meeting on 18th April 2012 the Council agreed an overarching Information Governance and Security Policy.</p> <p><i>[Business Unit Leader - Member Support and Partnerships]</i></p>	Original	Revised
			30/4/12
			N/A

7. COMMITTEE WORK PROGRAMME 2012/13

Date	Agenda Item
26 June 2012	Internal Audit Monitoring Report (PS) Annual Treasury Management Review (PS) Committee Work Programme 2012/13 (PS)
25 September 2012	Internal Audit Monitoring Report (PS) Annual Governance Statement Statement of Accounts 2011/12 (PS)
27 November 2012	Annual Audit Letter (PS) Treasury Management Half Year Report (PS) Internal Audit Monitoring Report (PS)
19 March 2013	External Audit Plan for 2012/13 Audit (PS) Audit Plan (PS) Internal Auditing Monitoring Report (PS)