5. ANNUAL AUDIT LETTER 2011/12

REPORT OF:	HEAD OF FINANCE
Contact Officer:	Peter Stuart, Head of Finance
	Email: Peter.Stuart@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) 2011/12 to those charged with governance.

2. Summary

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

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

3. Recommendations

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. 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

There are no financial implications arising from this report.

6. Risk Management Implications

No risks arise from this report or associated actions.

7. Equality and customer service implications

This report has no such implications.

8. Other Material Implications

This report no other material implications.

Background Papers
None

Our reference HT/MSDC/1112AAL

3 October 2012

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

Direct line 0844 798 1790
Email helen-thompson@audit-commission.gov.uk

Dear Member

Mid Sussex District Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Mid Sussex District Council.

Financial statements and value for money conclusion

On 25 September 2012 I presented my annual governance report to the Audit Committee outlining the findings of my audit of the Council's 2011/12 financial statements and the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. I will not replicate those findings in this letter.

Following the Audit Committee, on 26 September I:

- issued an unqualified opinion on the Council's 2011/12 financial statements included in the Council's Statement of Accounts;
- concluded that there are no matters arising from my value for money work that I need to report; and
- certified completion of the audit.

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Closing remarks

I have discussed and agreed this letter with the Chief Executive and Head of Finance, ICT and HR. I would like to thank finance staff for the positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit Committee for their support and co-operation during the audit.

Yours sincerely

Helen Thompson
District Auditor

6. REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL - 30 SEPTEMBER 2012

REPORT OF:	HEAD OF FINANCE
Contact:	Email: tony.jackson@adur-worthing.gov.uk Tel: 01903 221261
Wards Affected:	All
Key Decision	No

Purpose of Report

1. The report sets out the Council's treasury management activity for the half year to 30 September 2012.

Summary

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

Recommendation

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

Background

4. The Treasury Management function of this Council is delivered by Adur-Worthing Councils as a shared service. The arrangement started in October 2010 and 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 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 industry knowledge, it would reward careful reading by those with an interest.

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

   "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".

7. 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.

Other Options Considered

10. None.

Financial Implications

11. None.

Other Material Implications

12. None.

Background Papers

Treasury Management Strategy Statement and Annual Investment Strategy 2012/13 to 2014/15 (March 2012)

TREASURY MANAGEMENT OPERATIONS REPORT FOR HALF YEAR 1 APRIL – 30 SEPTEMBER 2012

1. SUMMARY

1.1 This report summarises the treasury management transactions and portfolio position for the first six months of 2012/13 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 2012, at which the Treasury Management Strategy Statement and Annual Investment Strategy 2012/13-2014/15 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 half year report of treasury management performance in the current year. The first reporting requirement was fulfilled by the submission in June 2012 of the Treasury Management Annual Report for 2011/12, 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)
- the Treasury Management Strategy Statement (TMSS) & Annual Investment Strategy (AIS) Update (Section 9)

2.5 The regulatory environment puts onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details in the half year of the outturn position for treasury activities, and highlights compliance with the Council's policies previously approved by members.

3. PORTFOLIO POSITION

3.1 The Council's position at the start and half year points for 2012/13 was as follows:-

	Balance at 01.04.12 £m	Raised in Year £m	Repaid in Year £m	Balance at 30.09.12 £m
Borrowing				
Public Works Loan Board (PWLB)	(1.458)	-	0.069	(1.389)
Temporary Borrowing	-	-	-	-
TOTAL BORROWING	**(1.458)**	**-**	**0.069**	**(1.389)**
Investments:				
In-house:				
Short Term	11.750	75.325	(61.625)	25.450
Long Term	9.000	1.000	(5.000)	5.000
With Fund Managers	-	-	-	
TOTAL INVESTMENTS	**20.750**	**76.325**	**(66.625)**	**30.450**
NET INVESTMENTS	**19.292**	**76.325**	**(66.556)**	**29.061**

4. BORROWING STRATEGY AND OUTTURN 1 April – 30 September 2012

4.1 The borrowing outturn for the half year is summarised below:

	Average Interest Rate	Balance at 01.04.12 £m	Raised in Year £m	Repaid in Year £m	Balance at 30.09.12 £m
Long Term Borrowing					
PWLB - Fixed rate	4.36%	(1.458)	-	0.069	(1.389)
PWLB - Variable rate	-	-	-	-	-
Market – Fixed rate	-	-	-	-	-
Market - Variable Rate	-	-	-	-	-
Total Long Term Borrowing	4.36%	(1.458)	-	0.069	(1.389)
Short Term					
Temporary Borrowing	-	-	-	-	-
Total Short Term Borrowing	-	-	-	-	-
TOTAL BORROWING	**4.36%**	**(1.458)**	**-**	**0.069**	**(1.389)**

4 **BORROWING STRATEGY AND OUTTURN 1 April – 30 September 2012** (continued)

4.2 No new borrowing has been transacted in the period.

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 30. 09. 2012*
494369 495726	06/03/2008 27/07/2009	01/03/2023 30/06/2014	1,700,000 205,000	4.55% 2.23%	1,309,035 85,208
TOTAL LOANS			1,905,000		1,394,243
(* includes accrued interest to 30 September)					

4.4 The total cost of interest on all borrowing for the half year to 30 September 2012 was approximately £31,938, while the full year cost is expected to be £62,552 if no further borrowing is incurred. The interest on borrowing is in-keeping with the budgetary estimates for 2012/13.

5. **THE ECONOMY AND INTEREST RATES 2012/13 ONWARDS**

The following section comprises an overview provided by the Councils' shared service provider's professional Treasury Management consultants Sector Treasury Services Limited.

5.1 **Economic performance to date**

Economic sentiment, in respect of the prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that on-going negative sentiment in that area would inevitably permeate into the UK's economic performance.

With regard to the Eurozone, investor confidence remains weak because successive "rescue packages" have first raised, and then disappointed, market expectations. However, the uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence not only in Europe and the UK, but also in America and the Far East/China.

In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably (CPI @ 2.6% in July), UK GDP fell by 0.5% in the quarter to 30 June, the third quarterly fall in succession. This means that the UK's recovery from the initial 2008 recession has been the worst and slowest of any G7 country apart from Italy

(G7 = US, Japan, Germany, France, Canada, Italy and UK). It is also the slowest recovery from a

5. **THE ECONOMY AND INTEREST RATES 2012/13 ONWARDS (Continued)**

5.1 **Economic performance to date (Continued)**

recession of any of the five UK recessions since 1930 and total GDP is still 4.5% below its peak in 2008.

This weak recovery has caused social security payments to remain elevated and tax receipts to be depressed. Consequently, the Chancellor's plan to eliminate the annual public sector borrowing deficit has been pushed back further into the future. The Monetary Policy Committee has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.

5.2 **Economic performance to date**

On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the ECB bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

5.3 **Outlook for the next six months of 2012/13**

The risks in economic forecasts continue unabated from the previous treasury strategy. Concern has been escalating that the Chinese economy is heading for a hard landing, rather than a gentle slowdown, while America is hamstrung by political deadlock which prevents a positive approach to countering weak growth. Whether the presidential election in November will remedy this deadlock is debatable but urgent action will be required early in 2013 to address the US debt position. However, on 13 September the Fed. announced an aggressive stimulus programme for the economy with a third round of quantitative easing focused on boosting the stubbornly weak growth in job creation, and this time with no time limit. They also announced that it was unlikely that there would be any increase in interest rates until at least mid 2015.

Eurozone growth will remain weak as austerity programmes in various countries curtail economic recovery. A crunch situation is rapidly developing in Greece as it has failed to achieve deficit reduction targets and so may require yet another (third) bail out. There is the distinct possibility that some of the northern European countries could push for the ejection of Greece from the Eurozone unless its financial prospects improve, which does not seem likely at this juncture. A financial crisis was also rapidly escalating over the situation in Spain. However, in early September the ECB announced that it would purchase unlimited amounts of shorter term bonds of Eurozone countries which have formally agreed the terms for a bailout. Importantly, this support would be subject to conditions (which have yet to be set) and include supervision from the International Monetary Fund. This resulted in a surge in confidence that the Eurozone has at last put in place the framework for adequate defences to protect the Euro. However, it remains to be seen whether the politicians in charge of Spain and Italy will accept such loss of sovereignty in the light of the verdicts that voters have delivered to the politicians in other peripheral countries which have accepted such supervision and austerity programmes. The Eurozone crisis is therefore far from being resolved as yet. The immediate aftermath of this announcement was a rise in bond yields in safe haven countries, including the UK. Nevertheless, this could prove to be as short lived as previous "solutions" to the Eurozone crisis.

The Bank of England Quarterly Inflation Report in August pushed back the timing of the return to trend growth and also lowered its inflation expectations. Nevertheless, concern remains that the Bank's forecasts of a weaker and delayed robust recovery may still prove to be over optimistic given the world headwinds the UK economy faces. Weak export markets will remain a drag on the economy and consumer expenditure will continue to be depressed due to a focus on paying down debt, negative economic sentiment and job fears. The Coalition Government, meanwhile, is likely to be hampered in promoting growth by the requirement of maintaining austerity measures to tackle the budget deficit.

The overall balance of risks is, therefore, weighted to the downside:

- Low growth in the UK is expected to continue, with Bank Rate unlikely to rise in the next 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.

The expected longer run trend for PWLB borrowing rates is for them to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increases in yield.

This interest rate forecast is based on an assumption that growth starts to recover in the next three years to a near trend rate (2.5%). However, if the Eurozone debt crisis worsens as a result of one or more countries having to leave the Euro, or low growth in the UK continues longer, then Bank Rate is likely to be depressed for even longer than in this forecast.

<u>Sector PWLB forecasts</u>

	17.09.12 Actual	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
3m LIBID	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.90	1.10	1.40
6m LIBID	0.85	0.85	0.85	0.85	0.85	0.85	1.00	1.10	1.30	1.50	1.80
12m LIBID	1.30	1.30	1.30	1.30	1.40	1.50	1.70	1.90	2.10	2.30	2.60
5 yr PWLB	1.89	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.00	2.10	2.30
10yr PWLB	2.91	2.50	2.50	2.50	2.60	2.70	2.80	2.90	3.00	3.20	3.30
25yr PWLB	4.15	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10	4.20	4.30
50yr PWLB	4.32	3.90	3.90	3.90	4.00	4.00	4.10	4.20	4.30	4.40	4.50

5. THE ECONOMY AND INTEREST RATES 2012/13 ONWARDS (Continued)

5.3 Outlook for the next six months of 2012/13 (Continued)

Sector PWLB forecasts

The Sector forecasts above for PWLB rates incorporate the introduction of the **PWLB certainty rate** in November 2012 which will reduce PWLB borrowing rates by 0.20% for most local authorities. The actual PWLB rates on 17.9.12 ought therefore to be reduced by 20bps to provide a true comparison to the forecasts

6. INVESTMENT STRATEGY AND OUTTURN FOR 2012/13

Investment Strategy

6.1 The Council's investment strategy aimed to secure investment interest for 2012/13 of £294,000, as contained in the budgetary estimates included in the Budget Report. This equates to expected average returns on all investments of 1.556%. 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 2012/13 achieved returns on investment totaling £258k (1.77%) - just £36k below the target for the full year. Forward projections at 30 September anticipate the full year returns on investment to be close to £400k, £142k more than predicted at the start of the year.

6.3 The improvement in performance is reflected in the increase in available funds for investment which have gone up by £9.7m since the start of the year. Consequently, the increase in funds has allowed an extra £5m of the total portfolio to be invested for periods up to 364 days at an average rate of 2.11%. This accounts for £105k of the increased return above the budget expected at the commencement of the year.

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

2012/13 Movement	Balance 01.04.12 £m	Raised in Year £m	Repaid in Year £m	Balance 30.09.12 £m	% of Funds at 30.09.12
Investments					
Long-term > 1 year	9.000	1.000	(5.000)	5.000	16.4%
Short-term < 1 year	11.750	75.325	(61.625)	25.450	83.6%
TOTAL	**20.750**	**76.325**	**(66.625)**	**30.450**	**100.0%**

6.5 The investment transactions are further analysed by volume, financial institution and deal size as follows:

Investment Strategy

	No. of Transa-ctions	Amount Invested £000	Average Deal Size £000	Minimum Deal Size £000	Maximum Deal Size £000
Long-term **(> 1 year)**					
Banks	1	1,000	1,000	1,000	1,000
Building Societies	-	-	-	-	-
Total Long Term	**1**	**1,000**	**1,000**	**1,000**	**1,000**
Short-term **< 1 year or less)**					
Council's own Bank	5	6,000	1,200	1,000	2,000
Other Banks	4	4,500	1,125	1,000	3,000
Building Societies	19	27,500	1,447	1,000	2,000
Money Market Funds	22	37,325	1,696	600	3,000
Total Short-term	**50**	**75,325**	**1,506**	**-**	**-**
OVERALL TOTAL	**51**	**76,325**	**1,497**	**-**	**-**

6.6 The Council's treasury management policy currently restricts exposure to any one investment counterparty to a maximum of £4m, except for the Council's own bank for which the limit is £5m.

6.7 The maximum exposure of the Council to any of its approved investment counterparties during the half year, and the composition of investments at 30 September 2012, is shown in Appendix 1 of this report. 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 2012/13 (up to 30 September) is compared against the actual performance for 2011/12, including 2012/13 full year estimates in Appendix 2. Actual performance is within the target limits.

8. **PERFORMANCE MEASURES**

8.1 The Council's outturn performance in 2012/13 for the half year has been compared to the rate for equivalent new loans taken from the PWLB with the following results:

Debt Measures for half year to 30 Sept. 2012	Mid Sussex District Council			Equivalent New Loan Rate of Interest at 30 30.09.12
	Average Interest Rate % for 2012/13	Debt (£m) at 30.09.12	% of Debt at 30.09.12	
Short term Fixed	-	-	-	1.36%
Long Term Fixed	4.39%	(1,389)	100.0%	4.17%

8.2 As the Council has no short term debt, the only comparison is with the interest rate for new long term loans of equivalent duration, which at the 30 September were slightly below the average for Mid Sussex. This reflects the position that long term interest rates are generally lower than when the original debt was incurred.

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

INVESTMENTS	Mid Sussex Average Balances Held in Year(£m)	Mid Sussex Rate of Return %	Benchmark Average Return %
Short-term Fixed	20,977	1.61%	0.64% (3 Month)
Long-term Fixed	8,016	2.20%	1.24% (1yr plus)
Combined Return	28,993	1.77%	0.75%

9. **OTHER ISSUES**

Revisions To Prudential Indicators (PI's)

9.1 The Codes of Practice for Treasury Management and Prudential Borrowing were revised by CIPFA in early November 2011 and contained a requirement to include from 2012/13 a new Prudential Indicator being the Upper Limit For the Proportion of Net Debt Compared to Gross Debt. This indicator is included in the overall PI's approved by the Council as part of the Estimates 2012/13 and Setting of 2012/13 Council Tax in February 2012.

9.2 However, following further consultation by CIPFA the new indicator has been withdrawn as it is to be replaced from 2013/14 with a Prudential Indicator that compares Gross Debt with the Capital Financing Requirement (CFR). A feature of the new indicator in future will be to explain in the Treasury Management Strategy why Gross Debt exceeds the CFR where this situation arises (albeit that Paras 8.5 - 8.7 above provide some insight to this).

9. OTHER ISSUES (Continued)

Approved Counterparty List for Investments

9.3 No amendments to the Approved Counterparty List for Investments have been made since the Treasury Management Strategy was updated in November 2011. Although the changes made at that time have worked well, your officers remain vigilant to the volatility of the financial markets, and in particular to the sensitivities around Eurozone Sovereign debt in view of Sector's commentary at Section 3.

9.4 The List of Approved Counterparties for Investment purposes is shown in Appendix 3.

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, 2012.

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.

11. RECOMMENDATION

11.1 The Council is recommended to note the Half Year Annual Report for 2012/13, in particular :

- i) the increase in net investments from £20.75m to £30.45m in the period 1 April to 30 September 2012 (Para 3.1)
- ii) that no new borrowing has been necessary (Para 4.2)
- iii) that interest costs are in line with budgetary estimates (Para 4.4) while interest from investments have exceeded budgetary targets (Para 6.2) due to the increase in surplus cash (Para 6.3) and returns achieved (Para 8.3)

Principal Author and Contact Officer: Tony Jackson – Extension 1261

Background Papers:	(1)	Report to Council - "Treasury Management Strategy Statement and Annual Investment Strategy 2012/13 – 2014/15 (March, 2012).
	(2)	Half Year Treasury Management Report 2011/12 Template (Sector)

APPENDIX 1

MAXIMUM INVESTMENTS WITH EACH COUNTERPARTY
1 APRIL – 30 SEPTEMBER 2012

Name of Counterparty	Maximum Individual Investment	Maximum Holdings At Any Time	Balance at 30th September 2012
	£m	£m	£m
Fixed Term Cash Deposits			
Banks			
Bank of Scotland	1.000	1.000	1.000
Barclays Bank	1.000	4.000	4.000
Lloyds TSB	1.000	4.000	4.000
Royal Bank of Scotland	1.000	4.000	4.000
Building Societies			
Coventry	2.000	3.000	2.000
Leeds	1.000	1.000	1.000
Nationwide	2.000	3.000	2.000
Newcastle	2.000	2.000	2.000
Nottingham	2.000	2.000	2.000
Skipton	1.500	2.500	2.500
West Bromwich	2.000	3.000	3.000
Commercial Money Markets			
Invesco	3.000	3.000	0.300
Prime Rate	3.000	3.000	0.650
Council's Own Bank			
Co-operative Bank	2.000	5.000	2.000
TOTAL INVESTMENTS AT 30th SEPTEMBER, 2012			30.450

COMPLIANCE WITH PRUDENTIAL INDICATORS 2012/13

1. PRUDENTIAL INDICATORS	2012/13 Actual / Estimate at 30/09/12	2012/13 Full year Estimate	2011/12 Actuals
Extract from budget			
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non - HRA	1,144	£2,490	£2,811
Ratio of financing costs to net revenue stream			
Non - HRA	-0.71%	-0.54%	0.06%
Borrowing Outstanding			
Brought forward 1 April	1.458	1.458	3,591
Carried forward 30 Sept./ 31 March	1.394	1,324	1,458
Net in year borrowing / (repayments)	(64)	(134)	(2,133)
Capital Financing Requirement as at 30 Sep / 31 March			
Non – HRA	2,130	1,985	2,263
Change in Cap. Financing Requirement			
Non – HRA	-133	-278	-2,223
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	£0.11	£0.15	£0.82
2. TREASURY MANAGEMENT INDICATORS			
Authorised Limit for external debt -	**Limit**	**Limit**	**Actuals at 31.03.12**
Borrowing	£5,000	£5,000	£1,458
Other long term liabilities	£1,000	£1,000	-
Operational Boundary for external debt			
Borrowing	£3,000	£3,000	£1,458
Other long term liabilities	£1,000	£1,000	-
Upper limit for fixed interest rate exposure			
Investments net of Borrowing	93.1%	100%	94.6%
Upper limit for variable rate exposure			
Investments net of Borrowing	6.9%	0%	5.4%
Upper limit for total principal sums invested for over 364 days	48%	50%	43%

APPENDIX 2

COMPLIANCE WITH PRUDENTIAL INDICATORS 2012/13

Maturity structure of fixed rate borrowing during 2011/12	Proportion of Total Fixed rate Borrowing
under 12 months	0%
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	95%

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

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	
Primate 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

APPENDIX 3

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	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	}	
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.

ANNEX - GLOSSARY OF TREASURY MANAGEMENT TERMS

TERM	EXPLANATION
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.

ANNEX - GLOSSARY OF TREASURY MANAGEMENT TERMS

TERM	EXPLANATION
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**.

7. INTERNAL AUDIT – MONITORING REPORT 27th November 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 2012-2013 Internal Audit Plan and to report on the progress made in implementing previously agreed recommendations.

2. SUMMARY

The audit plan for this year 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.

3. RECOMMENDATION

The Audit Committee is asked to receive the report.

4. REPORT TO AUDIT COMMITTEE

Progress on implementing previous recommendations

4.1 There are currently no outstanding high priority recommendations to report. The last report to Audit Committee which included a report on high priority recommendations was on 26th June 2012. Two recommendations were reported to have been satisfactorily implemented.

4.2 The recommendation in relation to the Income Collection audit surrounded the re-introduction of the automated bank reconciliation of the Income Collection system to the General Ledger. The latest management response was that the reconciliation was now being successfully carried out using a spreadsheet system on both a daily and cumulative basis. Work on assessing whether the fully-automated system was the more appropriate method was to continue during 2012/13 and progress on this issue will be reviewed as part of the Income Collection audit which began on 26th November 2012.

Progress against the 2012-13 Internal Audit plan as at 27th November 2012

4.3 In line with the audit programme for the current year we have completed and issued the following reports;

- Housing Needs (Temporary Accommodation);
- Purchasing and Fuel Cards;

- Banking Arrangements;
- NNDR Discretionary Rate Relief;
- Grounds Maintenance Contracts;
- Leisure Contract; and
- Refuse Contract.

4.4 There were no high priority recommendations for any of these audits.

4.5 Additionally, at a meeting of the Audit Committee on 26th June 2012 the Committee Chairman inquired about how the Council ensured that all relevant policies and procedures were in place. Following the meeting Internal Audit agreed the scope of a review of the policies and procedures in place for the statutory services provided by the Council with the Head of Finance. This audit has been added to this year's plan in appendix A and is a work in progress at the time of writing this report.

4.6 Three audits in the plan in appendix A have been removed by the Head of Finance since the last report to Audit Committee. Reviews of Staff Training, the Contact Centre and Risk Management will no longer be performed as they were not considered fundamental to the Council's risk profile.

Background Papers

None.

Appendix A

Mid Sussex District Council
Internal Audit Plan 2012/13
Progress Report 27th November 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	15 Oct 2012						Audit to be conducted by Horsham
Council Tax – CenSus Partners	High	N/A	Qtr 3	26 Nov 2012						Audit to be conducted by Adur
Housing Benefits – CenSus Partners	High	25	Qtr 3	8 Oct 2012						Audit to be conducted by Mid Sussex
Payroll	High	5	Qtr 4							
Income Collection (Cashiers)	High	10	Qtr 3	26 Nov 2012						
Treasury Management	High	5	Qtr 4							
Payments (Creditors)	High	5	Qtr 4							
Sundry Debtors	High	5	Qtr 3	29 Oct 2012						
Capital Accounting & Asset Management	Medium	7	Qtr 4							
Budgetary Control	Medium	4	Qtr 3	6 Nov 2012						
Computer Audit										
Programme and Project Management	High	10	Qtr 3	18 Oct 2012						
Service and Support (ITiL service desk)	High	5	Qtr 3							
ICT Strategy	High	8	Qtr 4							
Resource Link	High	8	Qtr 2	25 Sep 2012						
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	14 May 2012	1 June 2012	7 June 2012	14 June 2012	7 June 2012	N/A	
Purchasing and Fuel Cards		6	Qtr 1	28 May 2012	9 July 2012	30 July 2012	6 Aug 2012	1 Aug 2012	N/A	
Banking Arrangements		5	Qtr 1	25 June 2012	6 Sept 2012	10 Oct 2012	17 Oct 2012	10 Oct 2012	N/A	
Grounds Maintenance Contracts*		5	Qtr 2	20 Aug 2012	11 Sept 2012	13 Sept 2012	20 Sept 2012	13 Sept 2012	N/A	
Refuse Contract*		5	Qtr 2	3 Sept 2012	11 Sept 2012					
Leisure Contract*		5	Qtr 2	24 Sept 2012	3 Oct 2012	4 Oct 2012	11 Oct 2012	4 Oct 2012	N/A	
NNDR Discretionary Rate Relief		5	Qtr 2	4 July 2012	9 Aug 2012	29 Aug 2012	5 Sept 2012	29 Aug 2012	N/A	
Use of Data		10	Qtr 3							
Local Land Charges		7	Qtr 3							
Statutory Policies and Procedures		5	Qtr 3	23 Oct 2012						
~~Staff Training~~		~~6~~	~~Qtr 4~~							Removed from plan
Corporate Governance (Follow-up of 2010/11 audit)		2	Qtr 4							
~~Risk Management~~		~~6~~	~~Qtr 4~~							Removed from plan
~~Contact Centre~~		~~5~~	~~Qtr 4~~							Removed from plan
Design and Print		5	Qtr 4							

*There was a Facilities Management Contracts audit with a budget of 15 days in the original audit plan. The budget has been split equally into three separate audits to look at specific contracts.

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.

8. 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)