



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

MONDAY 21ST MARCH 2011, AT 6.00 P.M.

CONFERENCE ROOM, THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

MEMBERS: Councillors S. R. Peters (Chairman), B. Lewis F.CMI (Vice-Chairman), D. Hancox, Ms. H. J. Jones and C. R. Scurrall

AGENDA

1. To receive apologies for absence
2. Declarations of Interest
3. To confirm the accuracy of the minutes of the meeting of the Audit Board held on 13th December 2010 (Pages 1 - 6)
4. Audit Commission Certification of claims and returns - annual report 2009/2010 (Pages 7 - 26)
5. Universal Credit and its Impact on Local Authorities (Pages 27 - 36)
6. Treasury Management Strategy Statement & Investment Strategy 2011/2012 - 2013/2014 (Pages 37 - 62)
7. Internal Audit Draft Operational Plan 2010/2011 (Pages 63 - 74)
8. Internal Audit Performance and Workload (Pages 75 - 84)
9. Risk Management Tracker - Quarter 3 (Pages 85 - 92)

10. To consider, and if considered appropriate, to pass the following resolution to exclude the public from the meeting during the consideration of items of business containing exempt information:-

"RESOLVED that under Section 100 I of the Local Government Act 1972, as amended, the public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Act, as amended, the relevant paragraphs of that part being as set out below, and that it is in the public interest to do so:-

<u>Item No.</u>	<u>Paragraphs</u>
11	3 & 7

11. Recommendation Tracker (Pages 93 - 116)
12. To consider any other business, details of which have been notified to the Head of Legal, Equalities and Democratic Services prior to the commencement of the meeting and which the Chairman, by reason of special circumstances, considers to be of so urgent a nature that it cannot wait until the next meeting

K. DICKS
Chief Executive

The Council House
Burcot Lane
BROMSGROVE
Worcestershire
B60 1AA

11th March 2011

Agenda Item 3

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE AUDIT BOARD

MONDAY, 13TH DECEMBER 2010 AT 6.00 P.M.

PRESENT: Councillors S. R. Peters (Chairman), B. Lewis F.CMI (Vice-Chairman), J. T. Duddy, Ms. H. J. Jones and C. R. Scurrrell (during Minute No's 32/10 to 38/10 and part of 39/10)

Also in attendance: Ms. J. Hill, Audit Commission (during Minute No's 32/10 to 36/10)

Observers: Councillor G. N. Denaro, Portfolio Holder for Resources

Officers: Ms. J. Pickering, Ms. G. Tanfield, Ms. M. Wall, Mr. A. Bromage and Ms. A. Scarce

32/10 **APOLOGIES**

An apology for absence was received from Councillor D. Hancox.

33/10 **DECLARATIONS OF INTEREST**

No declarations of interest were received.

34/10 **MINUTES**

The minutes of the meeting of the Audit Board held on 27th September 2010 were submitted.

RESOLVED that the minutes be approved as a correct record.

Ms. J. Hill from the Audit Commission asked that it be noted at Minute No. 21/10 that "It was proposed that an unqualified opinion on the financial statements would be issued" as this was not issued until 30th September 2010.

35/10 **AUDIT COMMISSION ANNUAL AUDIT LETTER 2009/2010**

A copy of the Annual Audit Letter for 2009/2010 was considered. The Chairman welcomed Ms. J. Hill from the Audit Commission to the meeting. Ms. J. Hill informed Members that she would present the report in the absence of Ms. L. Cave, District Auditor, who had submitted her apologies.

Ms. J. Hill highlighted the following areas which were covered by the report and discussed these in detail with Members.

- Key messages (including the Council's release from the formal engagement process and Shared Services).
- Financial statements and annual governance statement (including the National Fraud Initiative and the estimated savings identified).
- Value for money
- Future challenges
- Action Plan

Ms. J. Hill informed Members that since the preparation of the Audit Letter a review of the Housing Benefit and Council Tax benefit had been concluded. Some errors had been highlighted from the initial sampling and additional work and amendments had been required. A qualification letter had been issued and a detailed report would be issued by February 2011.

Members were advised that the Audit Commission had made 3 recommendations in the Audit Letter. These had been considered by Officers and actions had been agreed to address the issues raised. These were:

- To implement all Annual Governance recommendations within the agreed timescale.
- To implement the Shared Service report recommendations
- To consider the liability arrangements to ensure services were delivered in a compliant way to both Councils.

Ms. J. Hill drew attention to Paragraph 63 of the Annual Audit Letter and reassured Members that following the Government's announcement of the abolition of the Audit Commission they would continue to deliver the Council's 2010/2011 and 2011/2012 audit.

After further discussion it was

RESOLVED that the recommendations included in the Annual Audit Letter 2009/2010 be noted.

36/10 **AUDIT COMMISSION - VALUE FOR MONEY CONCLUSION 2009/2010**

A copy of the Audit Commission Value for Money Conclusion for 2009/2010 was considered.

Ms. J. Hill advised Members this report formed part of the Use of Resources judgement for 2009/2010 and that the Audit Commission were still required to provide this despite the Use of Resources judgement ceasing with immediate effect.

Members were informed that the Audit Commission recognised that the Council had improved its arrangements in several areas and that the improvements would put the Council in a good position moving forward in realising efficiencies for the future funding limitations.

Members requested that the Executive Director Finance and Corporate Resources passed on the Board's thanks to staff for the work that had been done. The Executive Director Finance and Corporate Resources informed Members that, from January 2011, Mr. D. Evans would be the Audit Manager for the Council. Mr. Evans was also the Audit Manager for Redditch Borough Council.

RESOLVED that the Value for Money Conclusion Report for 2009/2010 be noted.

37/10 **PROTECTING THE PUBLIC PURSE - LOCAL GOVERNMENT**

The Chairman welcomed Ms. M. Wall, Bromsgrove District Council's Fraud Services Manager to the meeting.

The Fraud Services Manager explained the background of the report to Members and confirmed that it was an accepted fact that fraud would increase because of the current economic climate and that fraud clearly had an adverse impact on the economy and the services which the Council provided to its residents.

The Fraud Services Manager highlighted the high risk areas which had been identified and discussed these in detail with Members:

- Housing Tenancy Fraud
- Single Person Discount Fraud and other Council Tax discounts and exemptions
- Recruitment Fraud
- Procurement
- Blue Badge Fraud

The Fraud Services Manager informed Members that she would be providing Fraud Awareness training for Bromsgrove District Housing Trust Homeless Housing Team and the Council's Housing Strategy staff.

It was also acknowledged that Recruitment Fraud was an area, where without adequate vetting procedures, was easy to manipulate and was an area within the Council which needed to be addressed. The Fraud Services Manager explained that Human Resources were currently undergoing a shared service arrangement and it was difficult to put procedures and training in place. However it had been agreed that this would be a priority when the shared service was finalised. It had also been agreed that Anti Fraud training would be included within the Corporate Induction programme with effect from April 2011.

The Fraud Services Manager also drew Members' attention to the results of the Fraud Survey which had been carried out in October 2010 and highlighted areas of concern. After further discussion it was

RESOLVED:

- (a) that the Audit Commission's Checklist as set out in Appendix 1 to the report be undertaken, to provide a baseline of where we are and to ensure sound governance and counter fraud arrangements are working as intended;
- (b) that the review of the outcomes of the Fraud Survey as shown at Appendix 2 to the report be noted;
- (c) that the review of outcomes of Investigations undertaken by the Corporate Anti-Fraud Team during 2009/2010 and the first 6 months of 2010/2011 be noted;
- (d) that the targeting of the risks identified in the report as raised nationally be approved.

RECOMMENDED that the Cabinet continue to undertake a commitment to fight possible fraud and corruption against the Council, by initially using the Audit Commission's self assessment Checklist at Appendix 1 of the report and to consider potential risks to the Council by utilising the Corporate Anti-Fraud Team (CAFT) to identify and prevent such risks.

38/10 **RISK MANAGEMENT TRACKER - QUARTER 2**

The Chairman welcomed Ms. G. Tanfield, Internal Audit Shared Service Manager to the meeting. Ms. G. Tanfield gave an update on progress of the development of the Internal Audit Shared Service and introduced her colleague, Mr. A. Bromage, Audit Manager, Worcestershire Internal Audit Shared Service, who would be managing the Internal Audit Team at Bromsgrove District Council. Mr. Bromage then presented the Risk Management Tracker report for the period 1st April 2010 to 30th September 2010, Quarter 2.

Members considered a report which presented an overview of the current progress in relation to Actions/Improvements (actions) as detailed in the service area risk registers for the period 1st April 2010 to 30th September 2010. Members were asked to note that Regulatory Services were currently not included within the risk management process to allow for the shared service to be fully embedded and that, with the agreement of the Executive Director Finance and Corporate Resources, the Corporate Risk register would not be presented to the meeting due to it still being developed by officers.

Mr. Bromage informed Members that for those risk registers where an update had not been provided, Internal Audit had been unable to verify the progress towards the completion of actions. The Executive Director Finance and Corporate Resources informed Members that she would be raising this with the Corporate Management Team

Mr. Bromage informed Members there were a total of 39 actions that had been allocated a behind target position rating. Review had verified that these actions were in relation to ongoing projects to ensure improvements were being achieved rather than fundamental problems with processes. The Executive Director Finance and Corporate Resources informed Members that the Risk Management Steering Group met monthly to review departmental registers and to highlight any concerns with the Head of Service.

RESOLVED that the progress to date against all service area risk register actions for 1st April 2010 to 30th September 2010, Quarter 2, be noted.

39/10 **INTERNAL AUDIT PERFORMANCE AND WORKLOAD 2010/2011**

Consideration was given to a report that provided a summary of the current performance and workload of the Internal Audit Section. The Internal Audit Shared Service Manager informed Members that the 3 outstanding audits from the 2009/2010 Audit Plan had been completed since the last meeting of the Audit Board.

The Internal Audit Shared Service Manager informed Members that a further revision of the plan was required in order to reflect the changes in circumstances as detailed in paragraph 4.5 of the report.

RESOLVED:

- (a) that the work completed and the progress against the 2010/2011 plan to 31st October 2010 be approved;
- (b) that the revised Internal Audit Plan for 2010/2011 be approved;
- (c) that the work regarding any investigations be noted;
- (d) that the Current Performance Indicator Statistics be noted; and
- (e) that amendments to the section's standard documentation be noted.

40/10 **LOCAL GOVERNMENT ACT 1972**

RESOLVED that under Section 100 I of the Local Government Act 1972, as amended, the public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A to the Act, as amended, the relevant paragraph of that part, as being as set out below, and that it is in the public interest to do so:-

<u>Minute No.</u>	<u>Paragraphs</u>
41/10	3 and 7

41/10 **RECOMMENDATION TRACKER - QUARTER 2**

Members considered a report that presented a summary of progress to date against audit report 'priority one' and key 'priority two' findings and agreed actions. The Executive Director Finance and Corporate Resources provided Members with an update for each 'priority one' and key 'priority two' findings and agreed actions.

RESOLVED:

- (a) that the "priority one" and key "priority two" findings and agreed actions as set out in Appendices 1 and 2 to the report be noted; and
- (b) that any necessary action and reporting process be agreed.

The meeting closed at 7.42 p.m.

Chairman

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

AUDIT COMMISSION CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT

Relevant Portfolio Holder	Councillor Geoff Denaro Cabinet Member for Finance
Relevant Head of Service	Jayne Pickering, Executive Director Finance and Corporate Resources
Key Decision / Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 To advise the Audit Board of the Certification of Claims and Returns – Annual Report, that were undertaken during 2009/10 by the Audit Commission.

2. RECOMMENDATIONS

- 2.1 **That Members consider the Certification of Claims and Returns – Annual Report and to requests officers respond to the recommendations following the Board meeting**

3. BACKGROUND

- 3.1 Government departments, agencies and the European Commission as grant paying-bodies pay billions of pounds in grants and subsidies each year to local authorities. These bodies often require certification, by an appropriately qualified auditor, of the grant claims and returns submitted to them.
- 3.2 The Audit Commission is required by law to make certification arrangements when requested to do so. This involves the application of prescribed tests, which are designed to give reasonable assurance that claims and returns are fairly stated and are in accordance with specified terms and conditions.
- 3.3 The Audit Commission Report summarises the findings from the certification of 2009/10 claims, and in particular details whether they were amended or qualified.
- 3.4 Funding from government grant paying departments is an important income stream for the Council, with claims of £17 million for specific activities and more than £23m for National Non Domestic Rates on behalf of Central Government. As this is such a significant contribution to the Council's income it is important that it is properly managed. In particular this means ensuring that:

- An adequate control environment is in place for each claim and return;
- Ensuring that the Council can evidence that it has met the conditions attached to the claim or return.

:

3.5 A Copy of the Audit Commission Report and their findings are attached at Appendix 1. Officers are required to respond to the findings to ensure that procedures are put in place to reduce the impact of the issues recurring in future years.

4. KEY ISSUES

4.1 The report has identified limited findings that have been classified as significant. The level of review required on a claim is determined by its value. Full reviews are required to be undertaken for claims and returns greater than £500k and these were carried out on 2 claims and returns. A limited review is required to be undertaken on claims and returns with a value between £100k and £500k and was undertaken on one claim.

4.1.1 Housing and Council Tax Benefits Claim

- This claim was subjected to a full review as it was valued at £17 million.
- An amendment was identified and agreed by Executive Director Finance and Resources. A revised claim was sent to the DWP reflecting this change. The overpayment errors identified were; of 33p for Housing Benefit and 44p on Council Tax Benefit.
- The issue of date stamping post was raised again. The Council has agreed that a policy for sample testing the postal and scanning arrangements would be implemented for 2011/12 claims.
- Due to the errors as detailed above and the issue of date stamping, the claim was not certified and a qualification letter was issued to the grant-paying body, the Department for Work and Pensions.

4.1.2 National Non Domestic Claim

- This claim was valued at £22.7 million was also subjected to a full review, which identified amendments which were agreed and adjusted for by the Head of Financial Services.

4.1.3 Disabled Facilities Grant

- A limited review was undertaken on this claim, as it was valued at £310k, which did not identify any amendments.
The claim was certified

AUDIT BOARD

21st March 2011

5. FINANCIAL IMPLICATIONS

5.1 None other than those covered in this report.

6. LEGAL IMPLICATIONS

6.1 The Accounts and Audit Regulations 2003 require that the Council complies with statutory accounting legislation and changes.

7. POLICY IMPLICATIONS

7.1 None as a result of this report

8. COUNCIL OBJECTIVES

8.1 Compliance with the accounting standards supports the improvement objective across the Council.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

9.1 The Executive Director of Finance and Resources ensures that actions are put in place to mitigate and reduce any impact of incorrect assessments of grants and returns being made. The areas inspected also form part of the Councils Audit Plan.

10. CUSTOMER IMPLICATIONS

10.1 None as a direct result of this report.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 None as a direct result of this report.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 None as a direct result of this report.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 None as a direct result of this report.

14. HUMAN RESOURCES IMPLICATIONS

14.1 None as a direct result of this report

AUDIT BOARD

21st March 2011

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 The certification of grants and returns and the controls in place to ensure they are accurate is key to the effective governance arrangements in place within the Council.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None as a direct result of this report.

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 None as a direct result of this report.

18. LESSONS LEARNT

18.1 Officers continue to seek advice from best practice authorities and the Audit Commission recommendations to ensure the accounts are presented in compliant format for consideration.

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None as a direct result of this report .

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	Yes
Chief Executive	N/A
Executive Director (S151 Officer)	Yes
Executive Director – Leisure, Cultural, Environmental and Community Services	N/A
Executive Director – Planning & Regeneration, Regulatory and Housing Services	N/A
Director of Policy, Performance and Partnerships	N/A
Head of Service	N/A
Head of Resources	N/A

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

Head of Legal, Equalities & Democratic Services	N/A
Corporate Procurement Team	N/A

21. WARDS AFFECTED

All wards

22. APPENDICES

Appendix 1 – Certification of Claims and Returns – Annual Report (2009/10)

23. BACKGROUND PAPERS

Detailed grant claims .

AUTHOR OF REPORT

Jayne Pickering, Executive Director Finance and Resources
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Certification of claims and returns - annual report

Bromsgrove District Council

February 2011

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Contents

Summary	2
Certification of claims.....	2
Significant findings.....	2
Certification fees.....	3
Actions.....	3
Background	4
Findings	6
Specific claim - Housing Benefit and Council Tax Benefit.....	6
Specific claim - National non domestic rates.....	7
Specific claim - Disabled Facilities grants.....	8
Appendix 1 Summary of 2009/10 certified claims	9
Claims and returns above £500,000.....	9
Claims between £125,000 and £500,000.....	9
Appendix 2 Action plan	10

Summary

Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income so it can show any conditions attached to this funding are met. This report summarises the findings from my review of the 2009/10 claims. It includes messages from my assessment of your arrangements for preparing claims and returns and the findings from the reviews.

Certification of claims

1 Bromsgrove District Council receives more than £17 million funding from various grant paying departments. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. It is therefore important the Council manages certification work properly and can show the relevant conditions have been met.

2 The Council also collects more than £23 million for central government for National Non Domestic rates (NNDR). The Council has to show that it has met the conditions attached to the receipt of NNDR from businesses.

3 In 2009/10, my audit team certified three claims with a total value of £40 million. A limited review was carried out on one claim and a full review undertaken on two claims. I describe the different types of review in paragraph 16.

4 Following my review your officers amended both claims on which full reviews were completed. On one of these claims, I was unable to certify fully the claim and issued a qualification letter to the grant-paying body. Appendix 1 sets out a full summary.

Significant findings

5 The full review of the Housing Benefit and Council Tax Benefit claim for £17 million identified some amendments. I discussed these amendments with officers and the Executive Director for Finance and Corporate Resources agreed to adjust the claim. I found minor errors in the sample of claims tested. I have reported these findings to the grant paying body DWP in a qualification letter.

6 The full review of the NNDR claim for £23 million identified many amendments. I discussed these with officers and the Executive Director for Finance and Corporate Resources agreed to adjust the claim.

7 A limited review on the Disabled Facilities Grant claim for £310K did not identify any amendments. I was able to certify this claim and there are no issues of significance on this claim to report to you.

Certification fees

8 The fees charged for grant certification work in 2009/10 for the three claims was £18,994. (2008/09 - £25,753, a decrease of 26.25 per cent).

Actions

9 I have recommended on how your arrangements can be improved and agreed actions with the Executive Director of Finance and Corporate Resources. The details of these are in Appendix 2.

Background

10 Grant paying bodies often require certification, by an appropriately qualified auditor, of the claims and returns sent to them. The law requires the Audit Commission to make certification arrangements when requested to do so. Certification work is not an audit but a different assurance engagement. This involves applying prescribed tests designed to give reasonable assurance that claims and returns are fairly stated and follow specified terms and conditions.

11 I use the findings of the certification work as evidence for the audit opinion on your financial statements.

12 The Council claims £40 million for specific purposes from grant paying central government departments. This is significant to the Council's income and it is important to manage claim and return preparation. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring the Council can evidence that it has met the conditions attached to each claim.

13 I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Bromsgrove District Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the work required to certify each claim or return.

14 The Council is responsible for compiling grant claims and returns following the requirements and timescale set by the grant paying departments.

15 The Department for Work and Pensions (DWP) specify the tests for the claim for Housing Benefit and Council Tax Benefit.

16 The key features of the current arrangements for reviews of all other claims and returns are as follows.

- The Commission does not certify claims and returns below £125,000.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.

- For claims and returns over £500,000 auditors assess the control environment around the preparation of the claim or return to decide whether they can place reliance on it. Where I can place reliance on the control environment, I carry out limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. I undertake all the tests in the certification instruction where reliance cannot be placed on the control environment. My assessment of the control environment informs decisions on the level of testing. This means if the control environment is strong fees for certification work are reduced.

Findings

Specific claim - Housing Benefit and Council Tax Benefit

17 The value of the Council's Housing Benefit and Council Tax Benefit 2009/10 claim to the DWP was £17 million.

18 The certification work follows methodology agreed with the DWP. I test samples of claims for each of Housing Benefit and Council Tax Benefit. If errors are identified in these samples I undertake further testing targeting those errors in an extra sample of 40.

19 I found the following from the testing of claims. These findings were discussed and agreed with your officers as follows:

- Housing Benefit - 20 cases tested. I identified three errors, two cases of underpayments of benefit and one case an overpayment of benefit. The benefit overpayment was 33 pence on a total claim of £788. I was required to test an extra sample of 40 claims and no additional errors were found.
- Council Tax Benefit - 20 cases tested. I identified one error of an overpayment of benefit. The overpayment of benefit was 44 pence on a total claim of £788. Under the methodology an extra sample of 40 claims was tested. No errors were identified in the further sample.

20 The review identified an amendment to the claim for compliance with the certification instruction. This was agreed and adjusted for by the Executive Director for Finance and Corporate Resources.

21 The date of receipt of claims and associated documentation is a key requirement in fixing the start dates for claims for Housing Benefit and Council Tax Benefit. I identified the Council does not date stamp the receipt of documents at the main Council offices in Burcot Lane, Bromsgrove as routine. The date stamping of documentation takes place if paperwork is not scanned into the document management system on the same day as receipt.

22 Independent reviews by management or by Internal Audit of the date of receipt of documentation do not take place to ensure procedures are in place and working as expected. Without a date stamp of receipt on the documentation evidence is not available to confirm the date of receipt of the documentation other than dates generated by the document management system. This issue has been discussed at length with your officers and remains unchanged from that first reported for the 2007/08 claim and repeated for the 2008/09 claim. In the sample of cases tested I did not identify differences between the date of scanning shown by the document management system and date stamps on documents. The Council is preparing a policy to cover these arrangements.

23 I submitted the qualification letter to the DWP in line with the prescribed timetable.

24 The fee charged for the certification of the Housing Benefit and the Council Tax Benefit claim was £13,327 (2008/09 - £17,426). This is a decrease in fees of £4,099 (23.5 per cent). There has been an improvement in claim assessment from last year. Fewer errors were identified in the first sample requiring follow up testing.

Recommendation

R1 The Council approve a policy for the postal arrangements for Benefit claims and a program of testing is introduced to ensure compliance with procedures.

Specific claim - National non domestic rates

25 I identified as part of the review on the National Non Domestic Rate (NNDR) claim audit trails of the claim from the NNDR accounting system were not available. I reported this to you in my Annual Governance Report on the Council's financial statements for 2009/10. As a result I was unable to place reliance on the control environment and a full review of the claim undertaken.

26 The original value of the NNDR return was £23 million. The review identified amendments to the claim. These were agreed with and adjusted for by the Executive Director of Finance and Corporate Resources. The amended value of the claim was reduced by £7,912.

27 I submitted the adjusted claim in accordance with the prescribed timetable.

28 The fee charged for the certification of the NNDR claim was £4,885 (2008/09 £6,885). The decrease in fee is because of an improvement in the working papers and the clarity of responses to queries provided by your officers.

Recommendation

R2 Arrangements are in place for the retention of documentation from the NNDR computer accounting systems to support the claim to the central government department.

Specific claim - Disabled Facilities grants

29 I undertook a limited review on the Disabled Facilities Grant claim value of £310K. The review did not identify any amendments. I was able to certify this claim and there are no issues of significance on this claim to report to you. The fee charged for this certification was £752 (2008/09 - £1,442). The decrease in fee reflects an improvement in the working papers provided as evidence for this claim.

Appendix 1 Summary of 2009/10 certified claims

Claims and returns above £500,000

Claim	Value £	Amended	Qualification letter
Housing benefit and Council Tax benefit	£17,049,297	Yes	Yes
National Non Domestic Rates (NNDR)	£23,050,850	Yes	No

Claims between £125,000 and £500,000

Claim	Value £	Was the claim amended?	Was a Qualification Letter issued?
Disabled Facilities Grant	£310,000	No	No

Appendix 2 Action plan

Recommendations

Recommendation 1

The Council approve a policy for the postal arrangements for Benefit claims and a program of testing is introduced to ensure compliance with procedures.

Responsibility	Executive Director of Finance and Corporate Resources
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Priority	High
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Date	
-------------	--

Comments	
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Recommendation 2

Arrangements are in place for the retention of documentation from the NNDR computer accounting systems to support the claim to the central government department.

Responsibility	Executive Director of Finance and Corporate Resources
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Priority	High
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Date	
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Comments	
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February 2011

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

Universal Credit and its Impact on Local Authorities

Relevant Portfolio Holder	Councillor Geoff Denaro Portfolio Holder for Finance
Relevant Head of Service	Teresa Kristunas Head of Resources
Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 To provide the Audit Board with details of latest proposals concerning Universal Credit and the creation of a Single Investigation Service by the Department for Work and Pensions (DWP). To include the implications for Local Authorities.

2. RECOMMENDATIONS

That the Audit Board:

- 2.1 Review the contents of this report, in order to gain awareness of the likely impact to local authority benefits and benefit fraud work.

3. BACKGROUND

- 3.1. The White Paper “Universal Credit: welfare that works”, published on 11 November 2010, sets out the Coalition Government’s plans to introduce legislation to reform the welfare system by creating a new Universal Credit. It is stated that Universal Credit will radically simplify the benefit system to make work pay, combatting worklessness and poverty. The White Paper outlines:

- the need for change
- how Universal Credit will work
- how it will affect benefit recipients, and
- its broader impact.

The White Paper can be reviewed at
<http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf>

The anticipated forthcoming changes can be reviewed at Appendix 1.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

- 3.2 In short, Housing Benefit will be removed from local authority control, replacing this benefit with Universal Credit. Universal Credit will replace the various means-tested working age benefits. It is intended to start in 2013 for new claims with existing working age Housing Benefit claimants being phased into the new system by April 2017.
- 3.3 It is stated that the Department for Work and Pensions will administer the Universal Credit, as opposed to the current system, involving Local Authorities, HM Revenues and Customs (Tax Credits) and the Department for Work and Pensions.
- 3.4 It is noted that Universal Credit will be administered via digital means. Therefore on-line facilities for making claims, notifying changes or checking payments and responsibilities will become the normal process.

For those customers that cannot (or do not) use online channels, alternative access routes will be offered, predominantly by telephone but also face to face for those who really need it. It is likely therefore that there will remain a need for assistance via our Customer Service Centre.

- 3.5 There have been various discussions taking place regarding Council Tax Benefit. Currently it is proposed that Council Tax Benefit will be removed, being replaced by a locally administered discount scheme. Full details have not yet been provided.

Early indications are that Local Authorities will be given scope to take account of the priorities of their own local communities when determining the amount of support for vulnerable and/or low-income families. However, it is stated that Local Authorities will be able to make use of data collated by the Department for Work and Pensions when assessing individuals income and savings in relation to discounts that may be available.

- 3.6 On the 18th October 2010, the Government published a new strategy dealing with fraud and error. Consultation had taken place between HMRC (Tax Credits) and the Department for Work and Pensions, but had not included Local Authorities at that point.

The strategy introduces the concept of a Single Investigation Service for benefit fraud, administered and managed by the Department for Work and Pensions. This Single Investigation Service will be in place by April 2013.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

The current information states that those officers employed as “Fraud Investigators” dealing with benefit fraud will be moved to the new fraud investigation service, possibly under TUPE rules. Any administration officers or fraud managers currently employed in local authorities are not currently included in this remit, although this is being discussed nationally.

Therefore no benefit fraud investigations will be undertaken by the Local Authority under this revised system.

It currently appears that there will be no transitional arrangements for the creation of the Single Investigation Service.

4. KEY ISSUES

- 4.1 To raise the knowledge and awareness of how the investigation of benefit fraud is likely to change.
- 4.2 To understand that this will impact on the employment of such teams, who undertake benefit fraud as part of their remit.
- 4.3 Corporate Fraud Teams will continue to have a place within the local authority, but the size of the team is likely to reduce due to the impending changes.
- 4.4 Assuming a locally administered discount scheme is applied to Council Tax liabilities, based on the ability to pay subject to income levels, there will remain the issue of fraudulent applications, such as now with the Single Person Discounts etc.

5. FINANCIAL IMPLICATIONS

- 5.1 Where Investigators are TUPE'd to the Department of Work and Pensions, there will be a reduction in salaries paid by Bromsgrove Council
- 5.2 Where fraud administration staff or Benefit Fraud Managers, are not taken to the new Single Investigation Service, there will be a need to either re-locate staff or consider redundancy payments.
- 5.3 Whilst paragraph 5.2 may not apply in its entirety to Bromsgrove Council as the Corporate Fraud Team covers all fraud affecting the Council and its district, there could still be an element of an impact. This would need to be reviewed once further details are known.
- 5.4 Reduction in the need to use internal legal services for benefit prosecution cases. This could impact on the Legal Services team.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

6. LEGAL IMPLICATIONS

- 6.1 Consideration of staff being TUPE'd to the Department for Work and Pensions.
- 6.2 Possible redundancy considerations
- 6.3 All other types of fraud affecting the Council will continue to be investigated by the Corporate Anti-Fraud Team according to normal criminal investigative processes.

7. POLICY IMPLICATIONS

- 7.1 The number of policies currently updated annually will change as no Benefit related policies will be forwarded for considerations.

8. COUNCIL OBJECTIVES

- 8.1 Currently it is difficult to assess how Council objectives could be impacted. The Council will, however, remain committed to:
 - Regeneration
 - Improvement
 - One Community
 - Environment

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

It is unclear what risks are involved in these changes, other than a possible reduction in localism.

10. CUSTOMER IMPLICATIONS

- 10.1 Access to online services
- 10.2 Possible removal of local expertise
- 10.3 Unknown impact to the protection of the public purse and local taxpayer's money regarding benefit fraud
- 10.4 Unknown impact on the proposed locally administered schemes for the new equivalent of Council Tax Benefit.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 Access to online services could cause issues for some members of the district

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 N/A

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 N/A

14. HUMAN RESOURCES IMPLICATIONS

14.1 Some input by HR will be needed if staff are to be TUPE'd to the new Single Investigation Service

14.2 Considerations over possible re-locations or redundancy of staff, if applicable.

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 N/A

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 NONE

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 NONE

18. LESSONS LEARNT

18.1 NONE

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 NONE

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	YES
Executive Director (S151 Officer)	YES
Head of Resources	YES

To be circulated for information at future CMT meeting.

21. WARDS AFFECTED

ALL WARDS

22. APPENDICES

Appendix 1 – Summary of changes and timeline of Housing Benefit and Universal Credit

23. BACKGROUND PAPERS

NONE

AUTHOR OF REPORT

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

Appendix 1

Forthcoming Changes

Summary of Welfare Reform Changes April 2011 - April 2017

2011/12		
Date	Area	Detail
01/04/2011	Local Housing Allowance (LHA)	£15 excess for LHA to be abolished.
		5 bedroom rate of LHA to be abolished so the maximum rate will be 4 bedroom.
		Caps introduced on the LHA rates for each size category, e.g. maximum of £400 per week for 4 bedrooms.
		Non-resident carers will be included in the room calculation for LHA.
	Employment and Support Allowance (ESA)	The migration to Employment and Support Allowance (ESA) from Incapacity Benefit, Income Support as a result of disability and Severe Disablement Allowance will be rolled out nationally from April 2011 - March 2014.
	Housing and Council Tax Benefit (HB/CTB)	The amount of the non-dependant deductions (NDDs) will start increasing. For the last few years it has only been the income bands that have changed, not the deductions.
	Discretionary Housing Payments (DHPs)	Increase in funding to Local Authorities for expenditure on DHPs from April 2011, followed by a substantial increase in 2012.
	Working Tax Credit (WTC)	The percentage of child care costs paid through WTC reduces from 80% to 70%.
	Child Tax Credits (CTC)	The basic and 30 hour elements will be frozen for three years.
Council Tax (CT)	Increase in child element, and again in April 2012.	
Savings Credit (SC)	Council Tax freeze funded by central government. Will apply in Scotland - announced in Scottish Executive budget changes - 17/11/10.	
Local Housing Allowance	The maximum Savings Credit amount will be frozen for four years.	
	LHA rates will be set by the 30th percentile figure rather than the 50th percentile figure at present. Based on the provisional figures from The Rent Service Scotland, the figures for the Forth Valley BRMA are between 4% and 12% lower than the current LHA rates. The reduced rates are likely to apply to all LHA claims from October 2011.	

2012/13		
01/04/2012	Local Housing Allowance	The Shared Room Rate is to be extended to apply to single claimants under 35, from the current position of applying to those under 25.
	Working Tax Credit	Increase in the number of hours of work required for a couple with children to qualify for WTC from 16 to 24, with one partner working at least 16 hours.
	Employment and Support Allowance	Contribution based ESA with Work Related Activity component time limited to one year.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

Forthcoming Changes

01/01/2013	Child Benefit	Withdrawn from families with a high rate taxpayer (earning above approximately £42,000).
2013/14		
01/04/2013	Universal Credit / Impact on Housing Benefit	Universal Credit will replace the various means-tested working age benefits (including Housing Benefit) and will simplify the claiming process, reduce fraud and error and ensure that it is more beneficial to be in work than out of work. It is intended to start introducing this in 2013 for new claims with the existing working age Housing Benefit caseload being transferred over by April 2017.
	Council Tax Benefit	Council Tax Benefit is not included in Universal Credit and spending on it will be reduced by 10% and devolved to Scotland from 2013. It will then be left to the Scottish Executive to implement their own rebate scheme with each Local Authority adopting their own variant. Whether there will still be Council Tax in Scotland after the Scottish Government's review of local taxation remains to be seen.
	Housing Benefit	HB will be reduced by 10% after the claimant or partner have been on Job Seekers Allowance for a year. Size criteria assessments for working age HB claims in social housing (i.e. Council houses and Housing Association tenancies).
	Local Housing Allowance	LHA rates will not be determined through analysis of the rental market and instead will increase in line with the Consumer Prices Index (CPI).
	All Benefits	The total amount of benefits awarded to workless households will be capped at the median level of income after tax for a working household (expected to be around £500 per week for lone parents and couples, £350 per week for single adults). The cap includes Housing Benefit and will be administered by Local Authorities unless the claimant receives Universal Credit. The cap does not apply to households receiving Disability Living Allowance, War Widows or Working Tax Credit.
	Fraud	Fraud Investigation Service created, although the implications for LA Fraud staff are not yet clear.
2016/7		
01/04/2016	State Pension Age	The increase in State Pension Age for women is to be accelerated from April 2016 so that it reaches 65 by November 2018 and then both men and women will rise to 66 by April 2020. The planned increase to 68 is likely to be accelerated too.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

Forthcoming Changes

2017/18		
01/04/2017	Universal Credit	Universal Credit replaces the various means-tested working age benefits (including Housing Benefit) for all claimants.
Date uncertain	Social Housing	It is not clear if this will apply in Scotland, but new social housing tenants will be charged at a rent level between social housing and market rents and will not get a lifelong tenancy

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2011-12 TO 2013-14

Relevant Portfolio Holder	Councillor Geoff Denaro Portfolio Holder for Finance
Relevant Head of Service	Jayne Pickering, Executive Director of Finance and Corporate Resources
Key Decision / Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 To report to the Audit Board on the strategy statement for the treasury management and investments in relation to Bromsgrove District Council to comply with the Local Government Act 2003 and to ensure the Council demonstrates accountability and effectiveness in the management of its funds.
- 1.2 To comply with Treasury Management Best Practice, the Performance Indicators, included in the report have previously been reported to Cabinet on 23rd February 2011. This information is still included in this report to ensure Members are aware of all information relevant to the Strategy Statement.

2. RECOMMENDATIONS

- 2.1 The Audit Board recommends to Full Council approval of the strategy detailed at Appendix 1.
- 2.2 The Audit Board will undertake additional scrutiny of the Strategy during 2011/12 to ensure the Council's investments are being managed in a risk free environment.
- 2.3 That the Audit Board notes the Authorised Limit for borrowing at £3,500,000 if required.
- 2.4 That the Audit Board notes the maximum level of investment to be held within each organisation (i.e. bank or building society) as detailed at £1m subject to market conditions.
- 2.5 That the Audit Board recommend to Full Council the approval of unlimited level for investment in Debt Management Account Deposit Facility (DMADF).

AUDIT BOARD

21st March 2011

- 2.6 That the Audit Board notes that training for Treasury management has been identified and will be incorporated within the Modern Councillor Programme (Training and Development Events for Members) prioritised with all other needs.

3. BACKGROUND

- 3.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public services (the CIPFA TM Code) and the Prudential Code require local authorities to set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each financial year. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

- 3.2 CIPFA has defined Treasury Management as:

"the management of the organisation's investments, 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."

- 3.3 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

- 3.4 In addition the Local Government Act 2003 requires the Council to 'have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable'.

- 3.5 The revised guidance issued in draft on the 16th November 2009 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely just on credit ratings, but consider other information on risk.

- 3.6 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.

4. KEY ISSUES

- 4.1 The failing of a number of Icelandic banks and the issue with Northern Rock has highlighted the risks associated with treasury management activities.
- 4.2 The strategy adopted by many local authorities has been to protect capital sums with minimum returns on investments. There are now only a handful of organisations with an F1+ credit rating.
- 4.3 The bank base rate has remained at 0.5% since 5th March 2009.
- 4.4 On 20th October 2010 HM Treasury issued an instruction to the PWLB to increase the interest rate on all new loans by an average of 1% above UK Government Gilts. The new borrowing rate for fixed loans, increased by approximately 0.87% across all maturities, and variable rates by 0.90%.
- 4.5 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, Bromsgrove District Council adopts the Treasury Management Framework and Policy recommended by CIPFA.

5. FINANCIAL IMPLICATIONS

- 5.1 The financial implications are contained within the body of the strategy statement at Appendix 1.

6. LEGAL IMPLICATIONS

- 6.1 This is a statutory report under the Local Government Act 2003.

7. POLICY IMPLICATIONS

- 7.1 None

8. COUNCIL OBJECTIVES

- 8.1 Approval of this strategy statement will ensure that the Council invests its resources within a robust and effective framework to deliver a maximum return on investments within a secure environment.

AUDIT BOARD

21st March 2011

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

9.1 The main risks associated with the details included in this report are:

- *Poor Use of Resources scoring*
- *Poor investment return*
- *Loss of capital due to investing with inappropriate organisations*

9.2 These risks are being managed as follows:

- Poor Use of Resources scoring

Risk Register: *Corporate*

Key Objective Ref No: *1*

Key Objective: *Effective Financial Management*

9.3 The risks associated with the delivery of maximum return within a secure environment have now been addressed in the risk register. The risks and controls in place to mitigate them have been assessed and detailed within the register.

9.4 Current controls to reduce the risk of loss of capital and poor return on investment include:

- Monthly reports from investment managers on performance of funds
- Quarterly reporting to Performance Management Board and Cabinet of financial position on investments
- Monthly updates from treasury advisors in respect of level of status for organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications

10. CUSTOMER IMPLICATIONS

10.1 The effective management of treasury operations will ensure that the management of the public funds is monitored and reviewed in a complaint way to satisfy the public of the use of their financial resources.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 None as a direct result of this strategy

AUDIT BOARD

21st March 2011

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 The robust framework that is in place to ensure investments maximise return within a secure environment support the demonstration that the Council is providing value for money is the use of its funds available.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 None

14. HUMAN RESOURCES IMPLICATIONS

14.1 None

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 The performance management implications are detailed in the report.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 None.

18. LESSONS LEARNT

18.1 Not applicable

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

Executive Director – Leisure, Cultural, Environmental and Community Services	No
Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Service	Yes
Head of Resources	Yes
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

21. WARDS AFFECTED

All

22. APPENDICES

Appendix 1 - Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

23. BACKGROUND PAPERS

Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

AUTHOR OF REPORT

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**Treasury Management Strategy Statement
and Investment Strategy 2011/12 to 2013/14**

Contents

1. **Background**
2. **Balance Sheet and Treasury Position**
3. **Borrowing and Rescheduling Strategy**
4. **Outlook for Interest Rates**
5. **Investment Policy and Strategy**
6. **Balanced Budget Requirement**
7. **2011/12 MRP Statement**
8. **Reporting**
9. **Other Items**

Appendices

- A. **Current and Projected Portfolio Position**
- B. **Interest Rate Outlook: The Council's, Arlingclose's**
- C. **Specified Investments for use by the Council**
- D. **Non- Specified Investments for use by the Council**

1. Background

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

1.2. CIPFA has defined Treasury Management 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."

1.3. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral element to treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

1.4. The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Appendix A), the Prudential Indicators and the outlook for interest rates (Appendix B).

1.5. The purpose of this TMSS is to approve:

- Treasury Management Strategy for 2011-12 (Borrowing and Debt Rescheduling - Section 4, Investments - Section 5)
- Prudential Indicators – (NB: the Authorised Limit is a statutory limit)
- MRP Statement – Section 8
- Use of Specified and Non-Specified Investments – Appendices C & D

1.6. As per requirements of the Prudential Code, the Council has adopted the CIPFA Treasury Management Code at its meeting on 17th March 2010. The Council has incorporated the changes from the revised CIPFA Code of Practice (November 2009) into its treasury policies, procedures and practices.¹

¹ This Prudential Indicator demonstrates the Council has adopted the principles of best practice in terms of Treasury Management

1.7. All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Balance Sheet and Treasury Position

2.1. The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR)², together with Balances and Reserves, are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
CFR	0	0	0	0.907
Balances & Reserves	5.208	3.190	2.203	2.079
Cumulative Net Borrowing Requirement/(Investments)	5.208	3.190	2.203	1.172

2.2. The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at **Appendix A**. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing³ (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure:

2.3. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

² The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

³ This is a key indicator of prudence and should not exceed the Capital Financing Requirement. As the CFR represents the level of borrowing for capital purposes, and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

Capital Expenditure	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
General Fund	2.465	4.568	2.633	1.372	1.131
Total	2.465	4.568	2.633	1.372	1.131

2.4. Capital expenditure is expected to be financed as follows ⁴:

Capital Financing	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Capital receipts	1.877	3.573	2.058	0.967	0.224
Government Grants and Contributions	0.588	0.995	0.485	0.405	
Major Repairs Allowance					
Revenue contributions			0.090		
Total Financing	2.465	4.568	2.633	1.372	
Supported borrowing					
Unsupported borrowing					0.907
Total Funding					0.907
Total Financing and Funding	2.465	4.5668	2.633	1.372	1.131

Incremental Impact of Capital Investment Decisions:

2.5. As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2010/11 Approved £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	0.01	0.19	0.11	0.76

⁴ The element to be financed from borrowing impacts on the movement in the Capital Financing Requirement. An increase in the CFR in turn produces an increased requirement to charge MRP in the Revenue Account.

2.6. The estimate for interest receipts is £68k. The ratio of financing costs to the Council's net revenue stream⁵ is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
General Fund	0.56	0.72	0.60	0.93	0.73

3. Borrowing and Rescheduling Strategy

3.1. The Council's balance of Actual External Debt at 31/01/11 (gross borrowing plus other long-term liabilities) is shown in Appendix A. This Prudential Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

3.2. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	6.5	2.5	3.5	4.5	5.5
Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
Total	6.5	2.5	3.5	4.5	5.5

3.3. The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

⁵ The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

Operational Boundary for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	5.5	1.5	2.5	3.5	4.5
Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
Total	5.5	1.5	2.5	3.5	4.5

3.4. The Executive Director of Finance and Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet.

3.5 The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to reflect the Council's debt and investment activity which is of a short term nature and therefore has a natural exposure to interest rate changes.

	2010/11 Approved £m or %	2010/11 Revised £m or %	2011/12 Estimate £m or %	2012/13 Estimate £m or %	2013/14 Estimate £m or %
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	100%	100%	100%	100%	100%

3.6 The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced.⁶ Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. Any borrowing undertaken by Bromsgrove District Council arises due to cash flow movements and is of a short term nature as such any borrowing undertaken will have a maturity date within 12 months.

⁶ This Prudential Indicator is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. The TM Code of Practice (Guidance Notes page 12) recommends that the Maturity Structure of fixed rate borrowing is to be broken down into several ranges if significant debt is held in periods in excess of 10 years.

Maturity structure of fixed rate borrowing	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	0.00%	100.0%
12 months and within 24 months	0.00%	100.0%
24 months and within 5 years	0.00%	100.0%
5 years and above	0.00%	100.0%

4 Investment Policy and Strategy

4.1 Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

4.2 The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

4.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendices C and D. The Executive Director of Finance and Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the Audit Board meeting.

4.4 Changes to investment strategy for 2011/12 include:

- AAA-rated Variable Net Asset Value (VNAV) Money Market Funds
- T-Bills
- Local Authority Bills
- Term deposits in Sweden
- Maximum duration for new term deposits 2 years

4.5 The Council's current level of investments is presented at Appendix A.

4.6 The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

- 4.7 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)
- 4.8 The Council selects countries and the institutions within them (see Appendix C), for the counterparty list after analysis and careful monitoring of:
- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
 - Credit Default Swaps (where quoted)
 - GDP; Net Debt as a Percentage of GDP
 - Sovereign Support Mechanisms/potential support from a well-resourced parent institution
 - Share Prices (where quoted)
 - Macro-economic indicators
 - Corporate developments, news and articles , market sentiment.
- 4.9 The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.
- 4.10 The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.
- 4.11 To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments could be considered against the context of the Council's balance sheet. The longer-term investments will be likely to include:
- Term Deposits with counterparties rated at least A+ (or equivalent)
 - Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

AUDIT BOARD

21st March 2011

4.12 The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

No. 12	Upper Limit for total principal sums invested over 364 days ⁷	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
		2.0	2.0	2.0	2.0	2.0

5 Outlook for Interest Rates

5.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix B. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

6 Balanced Budget Requirement

6.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

7 2011/12 MRP Statement⁸

7.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

⁷ Please make allowance within this Indicator for amounts invested for **1 year**, i.e 365/366 days.

⁸ The Annual MRP Statement is subject to Council approval and may therefore be reported separately to Council instead of being incorporated into the TMSS.

7.3 The Council's CFR at 31st March 2011 is expected to be nil in relation to capital expenditure funded from borrowing and therefore there is no requirement to charge MRP in 2011/12.

8 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

Treasury activity is monitored quarterly and reported internally to Cabinet and the Performance Monitoring Board. The Prudential Indicators will be monitored through the year by the Executive Director of Finance and Resources and reported as under:

The Executive Director of Finance and Resources will report to the Performance Monitoring Board and Cabinet on treasury management activity / performance and Performance Indicators as follows:

- (a) Quarterly against the strategy approved for the year.
- (b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.
- (c) The Audit Board will be responsible for the scrutiny of treasury management activity and practices.

9 Other Items

Training

CIPFA's Code of Practice requires the Executive Director of Finance and Resources to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Responsibility for the scrutiny of the Treasury Management function will rest with the Audit Board. The Executive Director of Finance and Resources will ensure that adequate training is provided for all relevant Members during the Financial Year.

Investment Consultants

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

The Council uses external consultants, Arlingclose for information and advice relating to investments. Updated information is received and monitoring undertaken by regular meetings and reports between the Executive Director of Finance and Resources and representatives from Arlingclose.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

This is our current investment portfolio as at 31st January 2011.

	Current Portfolio £m
Investments: <i>Managed in-house</i>	
- Deposits and monies on call and Money Market Funds	12.00
- Fixed Term Deposits	10.25
Total Investments	22.25

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

APPENDIX B

Arlingclose's Economic and Interest Rate Forecast

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Official Bank Rate													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75	3.00	3.00	3.00
Downside risk	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.65	1.90	2.15	2.40	2.50	2.50	2.75	3.00	3.25	3.50	3.50	3.50	3.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
5-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.75	3.00	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00	4.25	4.25	4.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
10-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.90	4.00	4.10	4.25	4.50	4.75	4.75	4.75	4.75	4.75	5.00	5.00	4.75
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.25	5.25	5.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	4.25	4.50	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.50	4.75	4.75	4.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

- The recovery in growth is likely to be slow and uneven.
- The initial reaction to the CSR is positive, but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

Underlying assumptions:

- The framework and targets announced in the Comprehensive Spending Review (CSR) to reduce the budget deficit and government debt will be put to the test; meeting the 2010 borrowing target of £149bn will be crucial to the gilt market's confidence in the credibility of the deficit reduction plans.

- Despite Money Supply being weak and growth prospects remaining subdued, the MPC has gravitated towards increasing rates in the new year as global inflation continues to rise along with household inflation.
- Consumer Price Inflation is stubbornly above 3% and is likely to spike above 4% in the first quarter of 2011 as a result of VAT, Utilities and Rail Fares.
- Unemployment remains near a 16 year high, at just over 2.5 Million, and is set to increase as the Public Sector shrinks. Meanwhile employment is growing but this is mainly due to part time work, leaving many with reduced income.
- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK banks' balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- Mortgage repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore the outlook for growth.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

Specified and Non Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high credit quality” as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts: (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- Local Authority Bills (LA Bills)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

1. ** Investments in these instruments will be on advice from the Council's treasury advisor.*

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

2. *The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

*Long-term minimum: A+ (Fitch); A1 (Moody's); A+ (S&P)
Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)*

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits %/£m	<i>E.g.</i>
Term Deposits	UK	DMADF, DMO	No limit	
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit	
Term Deposits/Call Accounts	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	£1m	
Term Deposits/Call Accounts	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	£1m	
Gilts	UK	DMO	No limit	
T-Bills	UK	DMO	No limit	
LA-Bills	UK	Other UK Local Authorities	No limit	
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	£1m	<i>Standard Life; Goldman Sachs; Prime Rate; RBS; Ignis etc. Aviva VNAV MMF Investec Liquidity Fund</i>
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£1m	<i>Payden & Rygel; Investec Short Bond Fund</i>

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

NB

Non-UK Banks - These should be restricted to a maximum exposure of 25-30% per country. This means that effectively all your authority's investments can be made with non-UK institutions should you wish, but it limits the risk of over-exposure to any one country.

MMFs - We emphasise diversification for all investments including MMFs. We advise that, as far as is practicable, clients spread their investments in Money Market Funds between two funds or more.

Group Limits - For institutions within a banking group, we advise a limit of 1.5 times the individual limit of a single bank within that group.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Barclays Bank Plc	£1m	£1.5m
Term Deposits/Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	HSBC Bank Plc	£1m	£1.5m
Term Deposits/Call Accounts	UK	Nationwide Building Society	£1m	£1.5m
Term Deposits/Call Accounts	UK	NatWest (RBS Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	£1m	£1.5m
Term Deposits/Call Accounts	UK	Standard Chartered Bank	£1m	£1.5m
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£1m	£1.5m
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£1m	£1.5m

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

21st March 2011

Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	£1m	£1.5m
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Bank of Montreal	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£1m	£1.5m
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£1m	£1.5m
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	£1m	£1.5m
Term Deposits/Call Accounts	France	BNP Paribas	£1m	£1.5m
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£1m	£1.5m
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£1m	£1.5m
Term Deposits/Call Accounts	France	Société Générale	£1m	£1.5m
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£1m	£1.5m
Term Deposits/Call Accounts	Netherlands	ING Bank NV	£1m	£1.5m
Term Deposits/Call Accounts	Netherlands	Rabobank	£1m	£1.5m
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	£1m	£1.5m
Term Deposits/Call Accounts	Switzerland	Credit Suisse	£1m	£1.5m
Term Deposits/Call Accounts	US	JP Morgan	£1m	£1.5m

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively if a counterparty is downgraded, this list may be shortened.

Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use: *(please amend the table below as applicable – we encourage you to discuss with Arlingclose the instruments and limits appropriate to your Council's strategy.)*

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?	E.g.
▪ Deposits with banks and building societies	✓		<u>2 years</u>	<u>Maximum total investment</u> <u>£1m</u>	No	
▪ CDs with banks and building societies	✓	✓				

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

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AUDIT BOARD

Date 21st March 2011

2010/11 INTERNAL AUDIT DRAFT OPERATIONAL PLAN

Relevant Portfolio Holder	Councillor Geoff Denaro Portfolio Holder for Finance
Relevant Head of Service	Jayne Pickering, Executive Director Finance & Corporate Resources
Key Decision / Non-Key Decision	

1. Purpose

- 1.1 To present the Bromsgrove District Council Internal Audit Draft Operational Plan for 2011/12 for approval, see **Appendix A**.
- 1.2 To present the Internal Audit Shared Service's set of key performance indicators for 2011/12 for approval, see **Appendix B**.

2. Recommendation

- 2.1 That the Internal Audit Draft Annual Operational Plan for 2011/12 at **Appendix A** is approved by Audit Board.
- 2.2 That the Internal Audit Shared Service's set of key performance indicators for 2011/12 at **Appendix B** is approved by the Audit Board.

3. Background

- 3.1 The objectives of the Worcestershire Internal Audit Shared Service are to:
 - examine, evaluate and report on the adequacy and effectiveness of internal control and risk management across the council and recommend arrangements to address weaknesses as appropriate;
 - examine, evaluate and report on arrangements to ensure compliance with legislation and the council's objectives, policies and procedures;
 - examine, evaluate and report on procedures to check that the council's assets and interests are adequately protected and effectively managed;
 - undertake independent investigations into allegations of fraud and irregularity in accordance with council policies and procedures and relevant legislation; and
 - advise upon the control and risk implications of new systems or other organisational changes.

- 3.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.
- 3.3 To aid compliance with the regulation, the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 details that “Internal Audit work should be planned, controlled and recorded in order to determine priorities, establish and achieve objectives and ensure the effective and efficient use of audit resources”.

4. Key Issues

Formulation of Annual Plan

- 4.1 The draft Internal Audit Plan for 2011/12, which is included at **Appendix A**, is a risk based plan which takes into account the adequacy of the council’s risk management, performance management and other assurance processes. It has been based upon the risk priorities per the corporate risk register and per discussions with Directors and Heads of Service as well as upon an independent risk assessment of the audit universe by Internal Audit. The Internal Audit Plan for 2011/12 has been agreed with the council’s section 151 officer.

Resource Allocation

- 4.2 The Worcestershire Internal Audit Shared Service is currently undergoing a restructure due to the staffing cuts agreed as part of the Shared Service Business Case and further reductions now required due to the reduced funding to be received by councils from 2011/12.
- 4.3 The Internal Audit Plan for 2011/12 has therefore been based upon a reduced resource allocation of 430 days, of which 305 days are deemed to be chargeable, a resource allocation which has been agreed with the council’s section 151 officer. This compares to a resource allocation of 555 days for the revised 2010/11 plan, of which 397 days were deemed to be chargeable.
- 4.4 The draft Internal Audit Plan for 2011/12 is set out at **Appendix A**. For comparative purposes the allocation of days for 2011/12 has been compared against the revised plan for 2010/11 to enable the Committee can see where the reduced number of days has impacted on the plan.

Impact on delivery

- 4.5 The Service Manager of the Worcestershire Internal Audit Shared Service is confident that she can provide management and those charged with governance with the assurances and coverage that they require over the system of internal control within the reduced resource allocation for 2011/12 for the following reasons:
- (a) The introduction of a consistent audit methodology and computerised audit software for 2011/12 will result in more efficient ways of undertaking, documenting and managing work. This will lead to a reduction in the number of days required for audit reviews without a proportionate reduction in the assurances and coverage provided to management as more audits will be covered within a given resource allocation than would have been the case in previous years.
 - (b) The rate charged to Bromsgrove District Council for the Internal Audit Shared Service will decrease from £239 per day in 2010/11 to £227 per day in 2011/12. This will mean that the reduction in the number of audit days will not be proportionate to the financial saving for Bromsgrove District Council as Internal Audit will be able to deliver more days within a given budget than would have been the case in 2010/11.
 - (c) The audit plan for 2011/12 is more risk focused, focusing on the council's corporate priorities, key risks per the risk register and per consultation with Heads of Service and Directors, the materiality of systems and risks pertaining to them. This will mean that management will be given assurance over all of the significant systems and key areas of risk to the council whilst time will not be spent on auditing systems which may have been routinely audited in the past but which are deemed to be immaterial and have no significant risks pertaining to them.

Financial implications

- 4.6 The reduced allocation of days in the Audit Plan for 2011/12 will result in a financial saving for the council. The estimated charge to the council for the Internal Audit service for 2011/12 based upon this plan will be £69,242. This compares to a charge of £94,883 for 2010/11 if the revised plan is delivered in full and a charge of £92,322 per the WETT business case for 2011/12. This will result in a financial saving of £25,641 and 27% for the council in comparison to 2010/11 and of £23,080 and 25% in comparison to the WETT business case for 2011/12.

Monitoring and reporting of performance against the Plan

- 4.7 Operational progress against the Internal Audit Plan for 2011/12 will be closely monitored by the Service Manager of the Worcestershire Internal Audit Shared Service and will be reported to the Shared Service's Client Officer Group, which comprises the section 151 officers from client organisations, on a monthly basis and to the Audit Committee on a quarterly basis.
- 4.8 The success or otherwise of the Internal Audit Shared Service will be determined by the performance against a set of key performance indicators which have been developed for the service. These have been agreed with the council's section 151 officer and are included at **Appendix B**. Performance against these indicators will be reported to the Audit Committee at the frequency stipulated in Appendix B.

5. FINANCIAL IMPLICATIONS

- 5.1 Delivery of the revised Audit Plan for 2010/11 will result in a saving to the Council against the budgeted costs for the Internal Audit Service as set out in the Worcestershire Internal Audit Shared Service Business Case of November 2009. The anticipated saving has been quantified in paragraph 4.6 of this report.

6. LEGAL IMPLICATIONS

- 6.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

7. POLICY IMPLICATIONS

- 7.1 None.

8. COUNCIL OBJECTIVES

- 8.1 Council Objective 02: Improvement.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

- 9.1 The main risks associated with the details included in this report are.
- Non-compliance with statutory requirements.
 - Ineffective Internal Audit service.
 - Lack of an effective internal control environment.

9.2 These risks are being managed as follows:

- Risk Register: Financial Services
- Key Objective Ref No: 3
- Key Objective: Efficient and effective Internal Audit service

10. CUSTOMER IMPLICATIONS

10.1 The internal control and assurance framework ensures that the services delivered by the Council to the customer are undertaken with a robust and effective framework of processes and procedures.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 None as a direct result of this report.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 A robust internal control environment ensures that Value for Money is delivered in the service provision across the Council.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 Climate Change is included as a risk to be managed on the Corporate and service area risk registers.

14. HUMAN RESOURCES IMPLICATIONS

14.1 None.

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 Effective governance process.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None.

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 None.

18. LESSONS LEARNT

18.1 Nothing to report for this Board.

AUDIT BOARD

Date 21st March 2011

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None as a direct result of this report.

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes
Executive Director – Leisure, Cultural, Environmental and Community Services	No
Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Finance and Resources	No
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

21. WARDS AFFECTED

All Wards.

22. APPENDICES

None

23. BACKGROUND PAPERS

Appendices A and B to this report.

AUTHOR OF REPORT

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Draft Detailed Provisional Programme of Work for 2011/12

Audit Area	Source	Planned days 2011/12	Planned days 2010/11	Difference = + or -
A – CHARGEABLE AND PRODUCTIVE				
Core Financial Systems				
Budgetary Control & Strategy	Risk assessment score 56	11	0	11
Benefits	Risk assessment score 66	12	15	-3
Asset Management	Risk assessment score 40	11	0	11
Creditors	Risk assessment score 40	7	12	-5
Cash, General Ledger & Bank Reconciliations	Risk assessment score 47	11	0	11
NDR	Risk assessment score 61	10	15	-5
Debtors	Risk assessment score 45	7	12	-5
Treasury Management	Risk assessment score 44	7	5	2
Council Tax	Risk assessment score 61	10	15	-5
				12
Corporate Audits				
Governance inc Procurement & WETT Programme	Risk assessment score 55	10	15	-5
Ctee Reporting Alignment BDC & RBC	Discussion HoS / Director	10	0	10
Strategic Alliance of BDC & RBC	Discussion HoS / Director	15	0	15
ICT inc. project auditing	Risk assessment score 64	15	15	0
Shared Services	Risk assessment score 63	15	0	15
Regulatory Service/Environmental Health	Risk assessment score 44	15	0	15
				50
Other Systems Audits				
Waste Collection	Risk assessment score 57 & HoS	10	15	-5
Garage & Workshop	Risk assessment score 52 & HoS	0	0	0
Cemeteries and Crematorium	Risk assessment score 51 & HoS	0	0	0
s106's	Risk assessment score 52 & HoS	10	0	10
Events	Risk assessment score 54 & HoS	0	0	0
Arts Development	Discussion HoS / Director	10	0	10
Risk Management	Discussion HoS / Director	40	80	-40
Completion of Prior Year's work	N/A	15	44	-29
Fraud and Special Investigations	N/A	0	0	0
Action Tracker / Follow Up	(to be included in reviews & risk management for 2011/12)	0	20	-20
Advisory / Consultancy	N/A	8	14	-6
Climate Change	Discussion HoS / Director	12	0	12
BURT Bromsgrove Dial a Ride	Discussion HoS / Director	0	0	0
				-68
		0	72	-72
TOTAL PRODUCTIVE (A ONLY)	271 63%	271	349	-78
B – CHARGEABLE AND NON-PRODUCTIVE				
Audit Management Meetings	N/A	15	48	-14
Corporate Meetings / Reading	N/A	5		
Annual Plans and Reports	N/A	8		
Audit Committee support	N/A	6		
TOTAL CHARGEABLE AND NON-PRODUCTIVE (B)	34 8%	34		
TOTAL CHARGEABLE (A + B)		305	397	-92
C – NON-CHARGEABLE AND NON-PRODUCTIVE				
Annual leave	N/A	48	82	-9
Statutory leave	N/A	15		
Sickness	N/A	10	30	-14
Other leave	N/A	13		
Training	N/A	3		
General administration	N/A	20	46	-13
General management	N/A	8		
Attendance at general meetings	N/A	5		
WAISS projects	N/A	3	0	3
TOTAL NON-CHARGEABLE (C ONLY)	125 29%	125	158	-33
TOTAL NON-PRODUCTIVE (B + C)	37%	159	206	-47

TOTAL (A + B + C)	430	100%	430	555	-125
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WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE
INTERNAL AUDIT PLAN FOR BROMSGROVE DISTRICT COUNCIL 2011/12

Description	2011/12 Planned days		2010/11 Planned days		Difference (+) or (-)
A - CHARGEABLE AND PRODUCTIVE					
Core Financial Systems	54		166		10
Corporate Audits	80				
Other Systems Audits	42				
Revenues and Benefits	32		45		-13
Completion of prior year's work	15		44		-29
Risk Management	40		80		-40
Advisory / consultancy	8		14		-6
TOTAL PRODUCTIVE (A only)	271	63%	349	63%	-78
B - CHARGEABLE AND NON-PRODUCTIVE					
Audit management meetings	15		48		
Corporate meetings / reading	5				
Annual plans and reports	8				
Audit committee support	6				
TOTAL CHARGEABLE AND NON-PRODUCTIVE (B ONLY)	34	8%	48	9%	-14
TOTAL CHARGEABLE (A + B)	305	71%	397	72%	
C - NON-CHARGEABLE AND NON-PRODUCTIVE					
Annual leave	48		82		
Statutory leave	15				
Sickness	10				
Other leave (including study)	13		30		
Training	3				
General administration	20		46		
General management	8				
Attendance at general meetings	5				
WIASS projects	3		0		
TOTAL NON-CHARGEABLE (C only)	125	29%	158	28%	-33
TOTAL NON-PRODUCTIVE (B + C)	159	37%	206	37%	
TOTAL (A + B + C)	430	100%	555	100%	-125

Key Performance Indicators (KPIs)**APPENDIX B**

The success or otherwise of the Internal Audit Shared Service will be measured against the following key performance indicators for 2011/12.

	KPI	Target	Why important?	Frequency of monitoring	Frequency of reporting
1	Chargeability %	71%	To ensure that the Internal Audit Shared Service gets the planned income from the districts.	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
2	Productivity %	63%	To ensure that the chargeable time spent on productive work is maximised so that districts get the planned delivery and assurances required from the Internal Audit Shared Service.	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
3	% Plan delivered excluding overruns	95% for year	To enable an accurate assessment of actual delivery against plan as overruns can distort the percentage of plan delivered by artificially increasing this without adding any additional assurance.	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
4	Overruns as a % of time spent	5%	To highlight efficiencies within the service and enable management and those charged with governance to challenge these.	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
5	Customer satisfaction surveys	95% Good or above	To enable an assessment of the quality of the Internal Audit Shared Service provided to the districts on an audit by audit basis. To be completed by auditees.	Monthly by WIASS management	Monthly to Client Officer Group Quarterly to Audit Committee
6	Number of audits delivered compared to plan	19	To ensure that the districts get the planned outputs from the Internal Audit Shared Service.	Annually by WIASS management	Annually to Client Officer Group and Audit Committee
7	Annual survey of Internal Audit Service	Good or above	To give an overall opinion on the provision of the Internal Audit Shared Service for the year particularly with respect to whether the service has provided value for money to the districts. To be completed by Client Officers.	Annually by WIASS management	Annually to Client Officer Group and Audit Committee

The Internal Audit Self-Assessment checklist assessing compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 should also be completed at the end of the annual cycle. Any areas of partial or non-compliance with the Code should be reported as exceptions to the Client Officer Group and Audit Board.

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 21st March 2011

2010/11 INTERNAL AUDIT PERFORMANCE AND WORKLOAD

Relevant Portfolio Holder	Councillor Geoff Denaro Portfolio Holder for Finance
Relevant Head of Service	Jayne Pickering Executive Director Finance & Corporate Resources
Key Decision / Non-Key Decision	

1. SUMMARY OF PROPOSALS

1.1 To present:

- A summary of the current performance and workload of the Internal Audit Section.

2. RECOMMENDATION

2.1 That the Audit Board considers and approves:

- Current status and work completed in the 2010/11 Audit Plan up to 28 February 2011.
- Current Performance Indicator statistics.
- Amendments to the section's standard documentation.

3. BACKGROUND

3.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".

3.2 To aid compliance with the regulation, the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 details that "Internal Audit work should be planned, controlled and recorded in order to determine priorities, establish and achieve objectives and ensure the effective and efficient use of audit resources".

3.3 A revised three year plan was approved by the Audit Board at its meeting of 28th September 2009. The purpose of the three year plan is to ensure that all of the Council's key systems are audited at least once every three years, thus providing assurance that the Council's systems are operating as intended.

AUDIT BOARD

Date 21st March 2011

- 3.4 The annual plan for 2010/11 is the second year of the three year plan. In accordance with best practice, each year the three year plan should be subject to review to ensure that identified changes, for example, external influences, risk score and process re-engineering, are taken into consideration within the current year's annual plan.
- 3.5 The 2010/11 Internal Audit Plan will aid the effectiveness of the Internal Audit function and ensure that:
- Internal Audit assists the Authority in meeting its objectives by reviewing the high risk areas, systems and processes.
 - Audit plan delivery is monitored on a weekly basis, appropriate action is taken and performance reports are issued on a regular basis.
 - The key financial systems are reviewed annually, enabling the Authority's external auditors to place reliance on the work completed by Internal Audit.
 - An opinion can be formed on the adequacy of the Authority's system of internal control, which feeds into the Annual Governance Statement in the statement of accounts.
- 3.6 The WETT Internal Audit Shared Service came into effect on 1st June 2010. Accordingly, the plan for 2010/11 was compiled in accordance with the WETT Business Case and a number of proposed amendments were approved by the Audit Board on the 27th September 2010 with further amendments on the 13th December 2010. The Internal Audit Shared Service is introducing for all its member authorities a risk based assessment that will assist in the compilation of future internal audit plans.
- 3.7 Following the Audit Board meeting on the 25th April 2006, a number of standard agenda items and topics were agreed. This report includes information on the following areas:
- Audit Plan – Current Status.
 - Audit Work Completed since the previous Audit Board meeting.
 - Performance Indicator statistics.
 - New or updated audit documents.

AUDIT BOARD

Date 21st March 2011

4. KEY ISSUES

2009/10 Audit Plan – current status

4.1 The 2009/10 Audit Plan Procurement Final Report has been finalised.

2010/11 Audit Plan – current status

The 2010/11 Audit Plan Debtors Report has been finalised. The Creditors remains with management before it to can be finalised.

Other audits currently progressing include Council Tax, Non Domestic Rates, Benefits, and a joint audit with Redditch Borough Council on Governance.

Further audits that are due to start or have recently started are Regulatory Services and Treasury Management.

4.2 There are four performance indicators for Internal Audit:

- Actual time compared with planned time,
- Percentage of productive time,
- Number of jobs planned for the year actually finished,
- Number of customer surveys returned that scored the service as 'good'.

The first two performance indicators are monitored and reported quarterly and the latter two indicators will be measured and reported annually.

4.3 The table below details planned time compared with actual time recorded from 1 April 2010 to 28 February 2011.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 21st March 2011

	Revised Plan (days)	Actual (days) (rounded)	% used	Comments
Chargeable Days (operational) days:				
Completion of 09/10 audit work	44	43	97%	Completion of 2009/2010 audit work in Q1
Audit reviews	184	73	40%	Includes all reviews; fundamentals, corporate.
Risk Management	80	79	99%	Risk Management
Follow up checks (Agreed Action Tracker process)	20	23	115%	
Consultancy	14	12	86%	
External Audit	2	1	50%	
Audit reviews contingency	5	1	20%	
Management	48	103	215%	WETT, Mngt Staff Forums & Team Mtgs, WIASS support (40 days)
Sub-totals	397	335	84%	(Actual / Plan Days)
Non-Chargeable (non-operational) days:				
Management & Administration	46	43	93%	Appraisals, Corporate Initiatives, Audit Group Mtgs, System issues, Administration & Audit Timesheets, WIASS support (5 days), system issues & upgrades.
Leave/approved absences	82	68	83%	General seminars & training
Professional Training	30	25	83%	
Sub-totals	158	136	86%	(Actual / Plan Days)
Total	555	467	84%	(Actual / Plan Days)
	Planned		Actual	
Percentage of operational days: (benchmark 65%)	72%		72%	

The performance against the two key performance indicators against which we report quarterly; actual time compared with planned time and percentage of productive time indicates that the latter is on target, the former is a bit behind target (we would have expected to have completed 92% of the plan at the end of Feb).

The variances to expectation as indicated above show only 40% of time on audit reviews when we are 11 months into the year and the management budget currently at 215%. The reasons for the variances include:

AUDIT BOARD

Date 21st March 2011

- Significant study leave which was not accounted for in the original 2010/11 plan;
- The ongoing Worcestershire Internal Audit Shared Service restructuring programme which has significantly impacted the ongoing audit plan delivery;
- Reallocation of a Bromsgrove District Council internal auditor for five weeks;
- Significant time has been placed in the 'management' budget for coaching, supervision, review of audit work and other operational activity and not raised against the 'Audit Review' budget.

Consequently, the time allocation budgets as shown above need to be considered together and as a whole rather than isolated individual budgets.

New or updated Audit documents

4.4 There are no new or updated Internal Audit documents to report, however, there is ongoing business transformation which will culminate in revised audit documentation.

Recommendations Tracker

4.5 This is a separate report.

5. FINANCIAL IMPLICATIONS

5.1 None.

6. LEGAL IMPLICATIONS

6.1 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2003 (as amended 2006) to “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

7. POLICY IMPLICATIONS

7.1 None.

8. COUNCIL OBJECTIVES

8.1 Council Objective 02: Improvement.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

9.1 The main risks associated with the details included in this report are.

- Non-compliance with statutory requirements.
- Ineffective Internal Audit service.
- Lack of an effective internal control environment.

9.2 These risks are being managed as follows:

- Risk Register: Financial Services
- Key Objective Ref No: 3
- Key Objective: Efficient and effective Internal Audit service

10. CUSTOMER IMPLICATIONS

10.1 The internal control and assurance framework ensures that the services delivered by the Council to the customer are undertaken with a robust and effective framework of processes and procedures.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 None as a direct result of this report.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 A robust internal control environment ensures that Value for Money is delivered in the service provision across the Council.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 Climate Change is included as a risk to be managed on the Corporate and service area risk registers.

14. HUMAN RESOURCES IMPLICATIONS

14.1 None.

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 Effective governance process.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None.

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 None.

18. LESSONS LEARNT

18.1 Nothing to report for this Board.

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 21st March 2011

19.1 None as a direct result of this report.

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes
Executive Director – Leisure, Cultural, Environmental and Community Services	No
Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Finance and Resources	No
Head of Legal, Equalities & Democratic Services	No
Corporate Procurement Team	No

21. WARDS AFFECTED

All Wards.

22. APPENDICES

None

23. BACKGROUND PAPERS

None.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 21st March 2011

AUTHOR OF REPORT

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BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 21st March 2011

RISK MANAGEMENT TRACKER ~ Quarter 3

Relevant Portfolio Holder	Councillor Geoff Denaro Portfolio Holder for Finance
Relevant Head of Service	Jayne Pickering Executive Director (Finance & Corporate Resources)
Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 To present an overview of the current progress in relation to Actions/Improvements (actions) as detailed in service area risk registers for the period 1st April 2010 to 30th December 2010.

2. RECOMMENDATIONS

- 2.1 The Audit Board is recommended to note progress to date against all service area risk register actions as at the end of the third quarter 2010/11 for the period April to December 2010.

It should be noted that Regulatory Services are currently not included within the risk management process to allow for the shared service to be fully embedded.

3. BACKGROUND

- 3.1 During December 2006 a review of the Council's risk management arrangements was undertaken by the Internal Audit section. Following the review a new approach, which included updated documentation, was adopted. The revised Risk Management Strategy was approved by the Executive Cabinet on the 7th March 2007.
- 3.2 As part of the new approach, each business area is required to collate a risk register that details:
- Key Objectives;
 - Risk Score;
 - Current controls;
 - Actions and improvements;
 - Responsible officers and target dates for each action; and
 - Progress against each action.

AUDIT BOARD

Date 21st March 2011

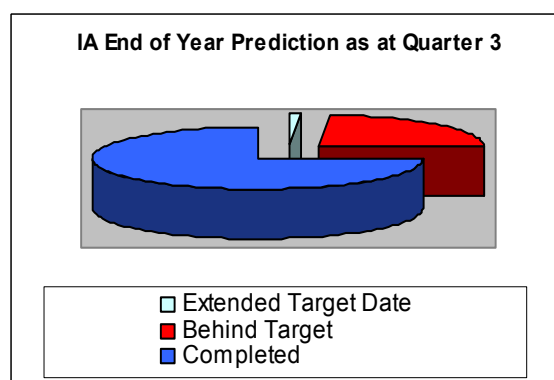
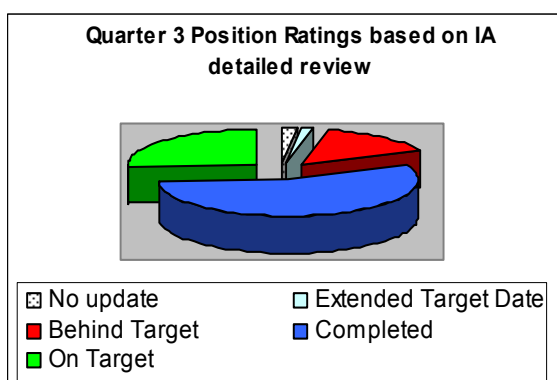
- 3.3 Business areas update their risk registers on a regular basis to ensure that actions are being monitored and implemented. The actions are designed to reduce risks, improve controls and aid individual sections to achieve their objectives.
- 3.4 The Risk Management Steering Group meets on a monthly basis to review departmental registers, highlight any concerns with the Head of Service and to review progress on actions.
- 3.5 The departmental registers are reviewed at Corporate Management Team and Audit Board on a quarterly basis.
- 3.6 In addition to the review of the registers there is a planned programme of risk management training that supports the development of the risk culture through the organisation.

4. KEY ISSUES

- 4.1 Service areas have submitted to Internal Audit the quarter 3 position for each action detailed on their risk register.
- 4.2 We have carried out a detailed review of each action, target date, quarter 3 position rating and commentary. The rationale is that this analysis aids management of actions.

Following our detailed review, and based on the number of actions completed during the period 1st April to 30th December 2010 we have predicted an overall position rating for the end of the financial year.

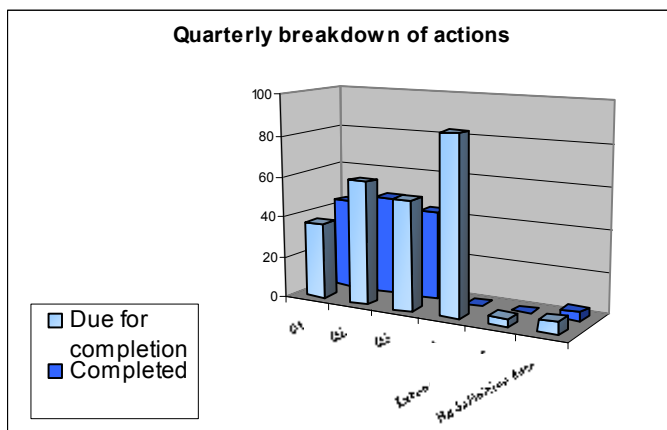
The above information is illustrated in the charts below.



AUDIT BOARD

Date 21st March 2011

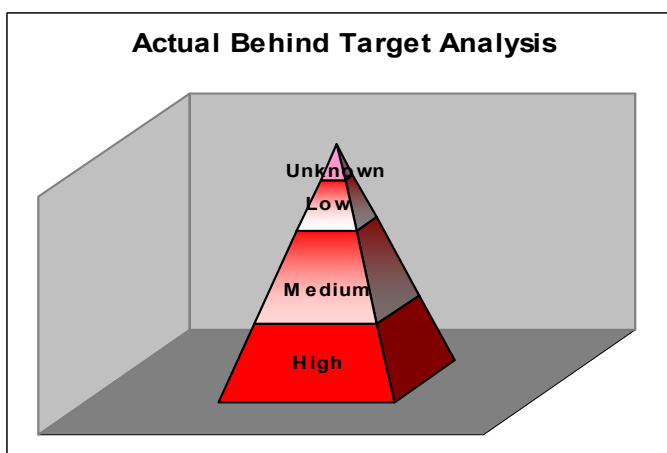
4.3 As part of the detailed review we have analysed the number of actions due for completion each quarter. The total quarterly breakdown is illustrated in the chart below.



In the first half of the year a third of all actions had been completed. By the end of quarter 3 this has increased to 56.5% and, accordingly, a high percentage of actions are currently due for completion during quarter 4. Additionally, our prediction suggests that 24% (that is, 60 out of a total of 246 actions) may not be completed.

4.4 For 2010/11 the risk register template has been updated and all actions are required to be allocated a High/Medium/Low rating. The rationale for this addition is to categorise actions that are behind target in order to provide an analysis of the potential impact on the control environment.

The chart below illustrates the overall rating allocation of actions that are currently behind target based on Internal Audit's detailed review.



BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 21st March 2011

There are a total of 37 actions that have been allocated a behind target position rating. Of these:

- 35 are actually behind target, with 11 being allocated a 'high' rating; and
- 2 have been 'flagged' as potentially not being achieved by the target date. This action has not been allocated a rating.

Review has verified that these actions are in relation to ongoing projects to ensure improvements are being achieved rather than fundamental problems with processes.

- 4.5 In order to highlight service area successes, Internal Audit have selected three actions that have been completed during quarter 3.

Relevant Key Obj.	Action/Improvement
Policy, Performance and Partnerships	
Deliver the Council's Community Engagement Strategy [CCPP09]	Budget Jury completed to agreed procedures, in particular, ones that ensure appropriate recruitment. Featured on television.
Environment Services	
Develop and maintain an effective and efficient collection of domestic refuse, recycling, street cleansing service and grounds maintenance service	The investigation and planning of the expansion of the kerbside recycling services to all households in line with the requirements of the Household Waste Recycling Act 2003 has been completed. Roll out is currently underway.
Information Management	
Be proactive in achieving greater compliance for information governance	A data matching statement for the National Fraud Initiative on forms that obtain personal data where there is the potential for a financial advantage to the person for data protection compliance has been provided.

Overall summary

- 4.6 In order to ascertain an overall perspective of progress, Internal Audit has compared the current position of actions with the quarter 3 positions for 2009/10:

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 21st March 2011

Position Rating	Quarter 3 2009/10	Quarter 3 2010/11
Behind target	13%	15%
On target	32%	25%
Completed	50%	57%
Extended target	5%	1%
No update	0%	2%
Total	100%	100%

From the above it may be seen that the percentage of actions completed is an improvement on last year's performance. However, with 42% of actions to be completed in the last quarter the risk that a significant number will not be completed increases.

4.7 As at quarter 3 Internal Audit's predictive end of year position rating has identified:

- 4 risk registers with an Excellent rating;
- 4 risk registers with a Good rating
- 2 risk registers with a Fair rating; and
- 1 risk register with a Weak rating.

4.8 As advised in the quarter 2 report, instances have been identified where service areas have changed target dates without RMSG approval. Until changes have been agreed by the RMSG, we have based our review on the original target completion dates.

5. FINANCIAL IMPLICATIONS

5.1 None outside of existing budgets. The continued development of the risk management culture within the Council will aim to achieve improved assessment under the Use of Resources scoring.

6. LEGAL IMPLICATIONS

6.1 None except specific legislation associated with any of the risk registers key objectives.

7. POLICY IMPLICATIONS

7.1 None.

AUDIT BOARD

Date 21st March 2011

8. COUNCIL OBJECTIVES

8.1 Council Objective 02: Improvement.

9. RISK MANAGEMENT INCLUDING HEALTH & SAFETY CONSIDERATIONS

9.1 Developing and maintaining Service risk registers will assist the Council to achieve its objectives, priorities, vision and values. The development and continual review of the registers will also support the Councils achievement of the Use of Resources framework.

9.2 Improvements and actions are monitored as part of each service risk register.

10. CUSTOMER IMPLICATIONS

10.1 In addressing the risks associated with the delivery of the Councils services the customers will receive a consistent and controlled quality of service provision.

11. EQUALITIES AND DIVERSITY IMPLICATIONS

11.1 The specific issue of improving equality and diversity is included within the Legal, Equalities and Democratic Services departmental register.

12. VALUE FOR MONEY IMPLICATIONS, PROCUREMENT AND ASSET MANAGEMENT

12.1 Ensuring the Council has adequate arrangements in place for VFM, procurement and asset management and that these areas are addressed in risk registers.

13. CLIMATE CHANGE, CARBON IMPLICATIONS AND BIODIVERSITY

13.1 Climate Change has been added as a High Impact Area and, therefore, will be considered for all objectives (Corporate and service area).

14. HUMAN RESOURCES IMPLICATIONS

14.1 The HR implications are addressed as part of the HR risk register.

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 21st March 2011

15. GOVERNANCE/PERFORMANCE MANAGEMENT IMPLICATIONS

15.1 Effective governance process.

16. COMMUNITY SAFETY IMPLICATIONS INCLUDING SECTION 17 OF CRIME AND DISORDER ACT 1998

16.1 None.

17. HEALTH INEQUALITIES IMPLICATIONS

17.1 None.

18. LESSONS LEARNT

18.1 The risk management framework constantly evolves following advice from the Audit Commission and stakeholder.

19. COMMUNITY AND STAKEHOLDER ENGAGEMENT

19.1 None as a direct result of this report.

20. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	No
Chief Executive	No
Executive Director (S151 Officer)	Yes
Executive Director – Leisure, Cultural, Environmental and Community Services	No
Executive Director – Planning & Regeneration, Regulatory and Housing Services	No
Director of Policy, Performance and Partnerships	No
Head of Finance and Resources	No
Head of Legal, Equalities & Democratic Services	No

BROMSGROVE DISTRICT COUNCIL

AUDIT BOARD

Date 21st March 2011

Corporate Procurement Team	No
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21. WARDS AFFECTED

All Wards.

22. APPENDICES

None.

23. BACKGROUND PAPERS

Risk registers – available from Heads of Service.

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