



## **NOTICE OF MEETING**

### **Governance & Audit Committee**

**Tuesday 24 January 2012, 7.30 pm**

**Council Chamber, Fourth Floor, Easthampstead House, Bracknell**

### **To: The Governance & Audit Committee**

Councillor Ward (Chairman), Councillor Wade (Vice-Chairman), Councillors Allen, Ms Brown, Heydon, McCracken, Thompson, Worrall and Mr G S Anderson

### **cc: Substitute Members of the Committee**

Councillors Mrs Ballin, Blatchford, Mrs Hayes, Leake, Mrs McCracken and Mrs Temperton

ALISON SANDERS  
Director of Corporate Services

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Telephone: 01344 353108  
Email: [kirsty.hunt@bracknell-forest.gov.uk](mailto:kirsty.hunt@bracknell-forest.gov.uk)  
Published: 16 January 2012



**Governance & Audit Committee**  
**Tuesday 24 January 2012, 7.30 pm**  
**Council Chamber, Fourth Floor, Easthampstead House,**  
**Bracknell**

**AGENDA**

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1. **Apologies for Absence**  
To receive apologies for absence and to note the attendance of any substitute members.
2. **Declarations of Interest**  
To receive any declarations of personal or prejudicial interests, and the nature of that interest, in respect of any matter to be considered at this meeting.
3. **Minutes - 8 November 2011**  
To approve as a correct record the minutes of the meetings of the Committee held on 8 November 2011. 1 - 4
4. **Urgent Items of Business**  
Any other items which, pursuant to Section 100B(4)(b) of the Local Government Act 1972, the Chairman decides are urgent.
5. **Audit Plan**  
To note the External Audit Plan for 2011/12. 5 - 28
6. **Update on Progress - Certification of Claims and Returns**  
To provide the Committee with an update on the progress the Housing and Council Tax Benefit Service has made since last reporting to Governance and Audit Committee in September 2011. 29 - 36
7. **Treasury Management**  
To review the Treasury Management Report. 37 - 60
8. **Anti-Fraud and Corruption Policy**  
To present the revised Anti-Fraud and Corruption Policy for review and approval. 61 - 68



**GOVERNANCE & AUDIT COMMITTEE  
8 NOVEMBER 2011  
7.30 - 8.20 PM**

**Present:**

**Bracknell Forest Borough Council:**

Councillors Ward (Chairman), Allen, Ms Brown, Heydon, McCracken, Thompson, Worrall and Mrs McCracken (Substitute).

**Independent Member:**

Gordon Anderson

**Apologies for absence were received from:**

Councillor Wade

**60. Apologies for Absence**

The Committee noted the attendance of the following substitute Member:

Councillor Mrs McCracken for Councillor Wade.

**61. Declarations of Interest**

There were no declarations of interest.

**62. Minutes - 29 September 2011**

**RESOLVED** that the minutes of the meeting held on 29 September 2011 be approved as a correct record and signed by the Chairman.

**63. Annual Audit Letter**

Phil Sharman, District Auditor, presented the Audit Commission's Annual Audit Letter 2010/11 to the Governance and Audit Committee. The Annual Audit Letter focused on the Council's financial statements and arrangements to achieve value for money in the use of resources. The Letter's new format was designed to be accessible to the public on the Council's website.

An unqualified opinion on the Council's 2010/11 financial statements had been given on 30 September 2011. It was noted that the Audit Commission felt that the Council had prepared well for the transition to International Financial Reporting Standards but that it needed to improve arrangements for accounting for fixed assets.

An unqualified opinion on the Council's arrangements for securing value for money had been given on 30 September 2011. It was noted that the Audit Commission felt that the Council had recognised that difficult decisions about priorities and services lay ahead and had set up a framework to decide and identify options for delivering priorities. It was also noted that the Audit Commission felt that the Council needed to maintain an emphasis on strategic policy changes and longer-run savings

programmes to shift the balance away from an annual round of targets to balance the revenue budget.

The Annual Audit Letter contained three recommendations:

- Monitor implementation of recommendations made in my annual governance report on aspects of internal financial control including:
  - procedures for accounting for fixed assets
  - procedures for journal processing
- Maintain an emphasis on identifying policy options, and planning and delivering savings programmes which achieve long run financial sustainability for the Council
- In the context of broader changes to the Local Government financial regime, demonstrate the Council's continuing financial resilience by updating the Medium Term Financial Strategy to reflect the impact of strategic policy changes and longer-run savings programmes.

Members asked for clarification on the accounting of fixed assets and the Committee were advised that CiPFA were currently consulting on changing the method of valuations for infrastructure assets. This would ensure that Central and Local Government were all using the same method. This would potentially mean a significant change in the way assets are valued.

The District Auditor confirmed that the 2010/11 Audit was now complete and thanked officers for their co-operation throughout the audit process and for their support over his four year term as District Auditor.

The Chairman welcomed Helen Thompson, the new District Auditor, who would be attending future meetings to present the Audit Commission's findings. Catherine Morganti would remain the Audit Manager for the authority.

**RESOLVED** that the Annual Audit Letter 2010/11, at Appendix A of the report, be noted.

**RECOMMENDED** to the Corporate Management Team that the recommendations set out in the Annual Audit Letter 2010/11 be reflected in the Corporate Services Service Plan for the coming year.

#### 64. **Internal Audit Assurance report**

The Head of Audit & Risk Management presented the Internal Audit report which provided a summary of Internal Audit activity during the period April to October 2011.

It was reported that 34 audit reports had been issued in draft or finalised since the Annual Internal Audit Plan for 2011/12 was approved by the Governance and Audit Committee. Of the reports issued, limited assurance opinions had been given for 3 audits.

The Committee noted that 6 memos had been drafted or finalised and were produced in place of reports as these were targeted reviews on housing benefits following up previous recommendations and recording results of spot check visits rather than full systems reviews. The Head of Audit and Risk Management advised three spot check visits had been undertaken with the first two focussing on ensuring supporting documentation was in place and the third visit checking assessment calculations. The outcomes had been positive from the targeted work and spot checks had identified only minor errors. The Committee noted, however, that it would take some time for these improvements to be reflected in the external audit.

The Committee noted that the limited assurance for Binfield CE Primary School was concluded overall for this audit due to one priority 1 recommendation being raised to address concerns that there were limited documented financial procedures in place and also because of the high number of priority 2 recommendations (16). These related to governance and financial management arrangements, inventory, the private fund, lettings income, school trips, imprest and ordering. The Committee was advised that the Local Authority continued to support and work with the school in addressing the weaknesses highlighted in the audit report. The Chief Officer: Performance and Resources had visited the school and found that they were making good progress with a number of recommendations already completed. The Client questionnaire had been 'unsatisfactory' and it was explained that in particular there had been an expectation that the scope of the audit was negotiable but that the approach taken with all schools was consistent. The Head of Audit & Risk Management agreed with the point raised in the client questionnaire that there had been a delay in preparing the report due to annual leave but did not support the comment that the assessments were too harsh. Members discussed the Diocesan support to voluntary aided schools in relation to financial matters and it was explained that they would only be involved in matters relating to capital interests.

The Committee noted that the limited assurance for Headspace was concluded as five priority 1 recommendations were raised. These were to address weaknesses in the completeness of income collected and banked, recording of income, expenditure without supporting documentation and the fact that the bank account used for funding expenditure and banking income was outside of the Council's accounting records. It was clarified that Headspace should have complied with the Council's accounting processes and that despite the relatively low expenditure for 2010/11 of approximately £57k the Committee were concerned about the fundamental nature of the weaknesses. The Head of Audit & Risk Management advised the Committee that management had informed her that agreed actions to address these issues had been implemented including the closure of the bank account.

The Committee noted that the limited assurance for the Emergency Duty Team was concluded as initially five priority 1 recommendations had been raised. The Head of Audit and Risk Management advised that since her update report was produced, one priority 1 recommendation to ensure employment checks are renewed every three years had been downgraded to priority 2 as CQC had recently issued guidance stating that this was not a requirement but authorities should decide what was appropriate based on the nature of the service undertaken and risks associated. The four remaining priority 1 recommendations were to improve controls over overtime claims and checks on time sheets and review the contract for the provision and maintenance of the MIS database and time recording procedures. The Head of Audit & Risk Management advised the Committee that management had informed her that actions were being taken forward to address the recommendations and incremental improvements had been made to address results from previous audits. New procedures had been implemented to improve controls over time sheets and overtime claims. The MIS database was due to be upgraded which will provide a more supportable solution and new procedures had been introduced for time recording. The Head of Audit & Risk Management clarified that the issues relating to time claims were connected to late adjustments to the rota and that she had been advised that administrative checks have been introduced to ensure time recording was taking place.

The Committee queried the number of audits which had not met the timescale for production of reports. It was explained that many of the delays were on reviews undertaken by one particular auditor from the outsourced provider HW Controls and

Assurance who had significant sickness absence but a S113 agreement with Reading and Wokingham Borough Councils' Internal Audit Teams had enabled the Council to maintain its progress on the current Internal Audit plan. It was clarified that the contract with H. W Controls and Assurance was results based and payment was only made upon receipt of a satisfactory draft report.

The Head of Audit & Risk Management updated members on current progress since the publication of the agenda. The following audit reports had been finalised: Emergency Duty Team, Youth Offending Service and Planned maintenance and Capital projects. The following audit reports were available in draft: Officer expenses, Downshire Golf and Drug and Alcohol Team.

The Borough Treasurer emphasised that the Corporate Management Team took limited assurance very seriously. The Head of Audit & Risk Management explained that all audits with limited assurance would be revisited in 2012/2013 and that future reports would indicate whether audits were as a result of previous limited assurance.

**RESOLVED** that the Internal Audit Assurance Report, April – October 2011 be noted.

**CHAIRMAN**

TO: GOVERNANCE AND AUDIT COMMITTEE  
24 JANUARY 2012

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**EXTERNAL AUDIT PLAN 2011/12  
Borough Treasurer**

**1 PURPOSE OF REPORT**

1.1 To note the External Audit Plan for 2011/12.

**2 RECOMMENDATION(S)**

2.1 That the Governance and Audit Committee notes the External Audit Plan for 2011/12.

**3 REASONS FOR RECOMMENDATION(S)**

3.1 To advise the Committee of District Audit's planned work with regard to the 2011/12 audit of accounts and value for money conclusion.

**4 ALTERNATIVE OPTIONS CONSIDERED**

4.1 None

**5 SUPPORTING INFORMATION**

5.1 Attached to this report is the External Audit Plan for 2011/12. The District Auditor, Helen Thompson, will attend the meeting of the Committee and will present and answer questions on the plan.

**6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

Borough Solicitor

6.1 Nothing to add to the report.

Borough Treasurer

6.2 Nothing to add to the report.

Equalities Impact Assessment

6.3 There are no equalities issues arising from this report.

Strategic Risk Management Issues

6.4 The External Audit Plan for 2011/12 takes account of the District Auditor's assessment of the risks facing the Council. Some of these, such as public spending pressures, are also included in the Council's Strategic Risk Register.

## **7 CONSULTATION**

### Principal Groups Consulted

7.1 Council officers.

### Method of Consultation

7.2 Circulation of the draft plan and internal meetings.

### Representations Received

7.3 Included in the attached plan.

### Background Papers

None

### Contact for further information

Alan Nash - 01344 352180

[Alan.nash@bracknell-forest.gov.uk](mailto:Alan.nash@bracknell-forest.gov.uk)



# Audit plan

Bracknell Forest Council

Audit 2011/12



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# Introduction

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**This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.**

## **Responsibilities**

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

☐ I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Governance and Audit Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

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**I will carry out the audit of your accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.**

## **Materiality**

10 I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion. Materiality can be defined as:

‘information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement’.

## **Identifying audit risks**

Auditing Standards require me to understand the Council and identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying your business risks, including assessing your own risk management arrangements;
- considering your financial performance;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within your information systems.

## Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
<p><b>Valuation of property, plant and equipment (PPE)</b>            You are required to value PPE at fair value (with some exceptions). Previous audits have identified weaknesses in ensuring asset valuations are kept updated, are accurately and completely reflected in the statements and your policy for capitalisation is consistently applied. The quality of some evidence to support valuations undertaken has been variable. There is a risk the valuations reported in the financial statements could be materially misstated.</p>	<p>I will review your controls over establishing valuations, including arrangements for instructing your valuer and controls over information provided to valuer.            I will carry out procedures to assess whether I can place reliance on the work of the valuer.            I will carry out tests of detail on valuations and associated depreciation calculations.            My team has been liaising with officers to help improve arrangements in advance of closedown.</p>

Table 2: **Specific risks**

Risk	Audit response
<p><b>Upgrade of the general ledger system.</b>            You upgraded your general ledger system in November 2011. There have been some changes to procedures as a result.</p>	<p>I will review the impact any changes in procedures have on controls. I will seek to place reliance on Internal Audit's work on this where possible.            As part of this I will review the Council's progress in strengthening controls over journal authorisation.</p>

## Risk

## Audit response

### PFI assets

The waste PFI assets are carried at construction cost, but are now operational. They have not been revalued. The Council plans to work with Reading Borough Council to revalue these in 2011/12.

I will review the basis of the revaluation.

### Related party transactions

The Council improved its arrangements for identifying transactions in 2010/11, however nine Council Members did not return their declarations.

I will review your arrangements and disclosure in 2011/12 and carry out additional work if necessary.

## Testing strategy

My audit involves:

- review and re-performance of work completed by your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows, overleaf.

Table 3: Proposed work

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Payroll Creditors Debtors General Ledger Cash receipting	Payroll Creditors Debtors General Ledger Cash receipting			
Final visit			Pensions assets and liabilities – auditor to Berkshire Pension Fund	Pensions liabilities and assets – Barnett Waddingham and our own consulting actuary Valuation of property, plant and equipment – Principal Surveyor Valuation of PFI scheme – to be determined.	All material accounts balances and amounts Year-end feeder system reconciliations

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

### Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

# Value for money

## I am required to reach a conclusion on your arrangements to secure economy, efficiency and effectiveness.

My conclusion is based on two criteria, specified by the Commission. These relate to your arrangements for:

- securing financial resilience – focusing on whether you are managing your financial risks to secure a stable financial position for the foreseeable future; and
- challenging how you secure economy, efficiency and effectiveness – focusing on whether you are prioritising resources within tighter budgets and improving productivity and efficiency.

### Identification of specific risks

14 I have considered the risks that are relevant to my value for money conclusion. I have identified the following risks that I will address through my work.

Table 4: Specific risks

Risk	Audit response	Separate audit output?
The main risk to financial resilience is the challenge of achieving a balanced budget over the medium term with reduced funding. You need to maintain an emphasis on strategic policy changes and longer-term savings programmes to shift the balance away from an annual round of targets to balance the revenue budget.	I will consider your medium term financial plans and how you plan to address the specific risks you face, including taking on responsibilities for public health and changes to the local government finance system. I will continue to review your approach to closing the long term budget gap.	To be reported in the annual governance report and the annual audit letter



Risk	Audit response	Separate audit output?
<p>You are a strategic partner in the proposed town centre redevelopment.</p>	<p>I have made no specific provision for a review of the redevelopment plans. If these progress significantly I will update my risk assessment and discuss any fee impact with the Borough Treasurer.</p>	<p>To be reported in the annual governance report and the annual audit letter if required.</p>

# Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 5: **Proposed timetable and planned outputs**

Activity	Date	Output
Audit plan	January 2012	Report to Governance and Audit Committee
Opinion: controls and early substantive testing	February/March 2012	Report to Governance and Audit Committee if necessary
Opinion: receipt of accounts and supporting working papers	By 30 June 2012	n/a
Opinion: substantive testing	July to August 2012	Annual governance report
Value for money	February to August 2012	Annual governance report
Present annual governance report at the Governance and Audit Committee	25 September 2012	Annual governance report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual audit letter

# The audit team

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The key members of the audit team for the 2011/12 audit are as follows.

Table 6: **Audit team**

Name	Contact details	Responsibilities
Helen Thompson District Auditor	<a href="mailto:helen-thompson@audit-commission.gov.uk">helen-thompson@audit-commission.gov.uk</a> 0844 798 1790/07974 007332	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Catherine Morganti Audit Manager	<a href="mailto:c-morganti@audit-commission.gov.uk">c-morganti@audit-commission.gov.uk</a> 07779 576414	Manages and coordinates the different elements of the audit work. Key point of contact for the Borough Treasurer.

# Independence and quality

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## Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

In 2010/11 Phil Sharman informed you that the Audit Manager for the engagement is a friend of a Director of a company who had overseen the implementation of a financial system at the Council in that year. Safeguards were put in place to ensure that the review of this system was performed by other members of the team. The system has now been implemented and therefore no further safeguards are required. I am not aware of any further relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## Quality of service

<sup>1</sup>∞ I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

# Fees

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## The fee for the audit is £230,940 as set out in Phil Sharman's letter of 4 March 2011.

### The audit fee

The Audit Commission has set a scale audit fee of £230,940 which represents a 10 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

→ The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

### Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Borough Treasurer and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

### Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I will inform you of any actions I identify.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 7: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£230,940	£256,600	- £25,660
Certification of claims and returns	£60,000	£77,500	- £17,500
Non-audit work	0	£2,500	- £2,500
<b>Total</b>	<b>£290,940</b>	<b>£336,600</b>	<b>£45,660</b>

# Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

**Table 8: Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.
	The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		



# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
  - internal controls are operating effectively; and
  - I secure the co-operation of other auditors.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting statements on which I can rely by agreed timescales.
- The Council provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

# Appendix 3 – Glossary

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## **Accounting statements**

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Annual Audit Letter**

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

## **Annual Governance Statement**

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Auditor(s)**

Auditors appointed by the Audit Commission.

## **Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

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## **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Group accounts**

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

## **Internal control**

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Audit Committee – the Governance and Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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**TO: GOVERNANCE AND AUDIT COMMITTEE  
24TH JANUARY 2012**

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**UPDATE OF CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT:  
HOUSING BENEFIT AND COUNCIL TAX SUBSIDY AND HOUSING BENEFIT  
INTERNAL AUDIT REPORT 2010/11**

**Director of Environment, Culture and Communities**

**1 PURPOSE OF DECISION**

- 1.1. The purpose of this report is to provide Committee with an update on the progress the Housing and Council Tax Benefit Service has made since last reporting to Governance and Audit Committee in September 2011.

**2 RECOMMENDATIONS**

- 2.1 That the current performance of the Housing and Council Tax Benefit Service be noted.**

**3 REASONS FOR RECOMMENDATIONS**

- 3.1. The Governance and Audit Committee considered a report on the Certification of Claims and Returns Annual Report: Housing Benefit and Council Tax Subsidy and Housing Benefit Internal Audit Report 2010/11 at its meeting on the 22<sup>nd</sup> March and the 28<sup>th</sup> June. It requested an update on progress against the Action Plans that were proposed in response to the audits be presented to the Committee at its meeting on the 29<sup>th</sup> September. The Governance and Audit Committee requested a further update at its meeting on the 24<sup>th</sup> January 2012.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 There is no alternative to the proposed action.

**5 SUPPORTING INFORMATION**

- 5.1. Progress against the recommendations made on the Certification of Claims and Returns Annual Report for 2009/10 began in the final quarter of 2010/11. Therefore, the impact of the Action Plan in response to recommendations may conceivably be limited in respect of the 2010/11 audit but it can be expected that the full impact will be found in the 2011/12 audit.
- 5.2. The Housing Benefit and Council Tax Benefit Claim for year ended 31 March 2011 qualification letter was submitted to the Department of Works and Pensions on the 12<sup>th</sup> December 2011. It is fair to say that the qualification letter portrayed an improved picture from the previous submission. As matter of context it should be remembered that the financial year 2010/11 included the transition from the Pericles to the

Northgate system. In that financial year there were 26,133 units processed in total and a total of £35.9 million paid in benefit.

- 5.3. The qualification letter found errors in expenditure misclassification, overpaid benefit/miscalculation of weekly income and underpaid benefit where an incorrect start date was used for a claim. These errors crossed housing and council tax benefit. A report will be presented to Governance and Audit Committee by the Audit Commission on the certification of claims and returns at the March meeting.
- 5.4. In this financial year the Benefit Service has been subject to three spot checks of assessment work, with testing being focussed on current cases, and an internal audit follow up of the previous internal audit report. A further audit of all the Action Plans stemming from the previous audits is currently taking place. The last spot check audit will take place in January 2012. A Northgate system post implementation audit reported in August and concluded that the findings were satisfactory and it made three priority three recommendations.

**Certification Report and Action Plan and progress on 2009/10 certification claim audit**

- 5.5. The certification report and associated Action Plan have been provided with the previous reports and for the sake of brevity are not included with this report. The following paragraphs provide a commentary on progress against the actions where an action had not satisfactorily concluded a recommendation.
- 5.6. The Action Plan recommended urgent action to reduce the level of errors.. As was previously reported the accuracy rate for 2010/11 was 93% and 93% in 2009/10. In 2011/12 to date 15 % of claims have been checked. The accuracy rate for quality is currently running at 93 % but on an upward trajectory in this financial year following resolution of processing errors with staff. Given the level of errors identified to date it will be difficult to achieve an accuracy rate for quality above 95% by year end. The speed of processing is currently at target at an average of 11 days.
- 5.7. The Government subsidy system which finances housing and council tax benefit expenditure accounts for a level of error in processing in financial terms. A threshold is set at 0.48% of the total benefit paid. The Council does not lose any subsidy if the total value of local authority error does not exceed that threshold.
- 5.8. From checking, any errors that lead to a loss of entitlement for a claimant are corrected. Any changes in benefit entitlement or a claim is accompanied by a letter to the claimant explaining the change. This refers claimants to the Council's website for clarification and encourages them to phone if they have any questions.
- 5.9. The Benefit Service management structure has been restructured and came into place from the 10<sup>th</sup> October. The new structure provides more management resource to check claims and management of assessment staff. Processing is now undertaken on an alphabetic split based on claimant names so that processing staff are more familiar with benefit customers and their requirements as well as ensuring a claim is assessed by the same member of staff from start to finish. This ensures ownership and accountability for processing work.
- 5.10. There was a recommendation that all non-HRA rent rebate expenditure should be reviewed and re-classified where necessary. This has been reviewed and the classification for 2010/11 is now consistent even after taking into account the change between the Pericles and Northgate systems. The subsidy claim for 2010/11 found



one property where the classification was incorrect although this had no impact on subsidy. The review of classification on the Northgate system has taken place and there is now a process in place between the Housing Options Service and Benefits to ensure the correct classification is used.

- 5.11 Recommendation 4 concerned action to reduce the number of errors calculating earnings. At the time of writing the previous report to the Governance and Audit Committee in September the results of the spot check was awaited. The spot check sampled 28 cases at random in the week commencing 15/8/11. The following observations were made. In one Council Tax Benefit Claim the earnings figure was input at £524.00 where it should have been input at £524.40, this led to an overpayment of benefit of £0.06. For one rent allowance claim incorrect amounts of Child Benefit had been input but this did not impact on benefit entitlement as the applicable amount exceeded income. There were two recommendations,
- There were three cases where claims were assessed correctly but the software had generated errors. It was recommended that after the software fix was implemented in February 2012 the three cases are rechecked to ensure the fix has rectified the errors.
  - It was recommended that checking of cases focused on non-income support cases where the scope for error is greatest. If the target level of checks in terms of percentage was applied to non-income support cases this would reduce the overall level of checking. The checking of claims now concentrates on claims where there is earned income and undertakes a higher percentage of checking of officers where quality falls below target.
- 5.12 Recommendation 5 concerned the need to provide an audit trail on how decisions had been reached on benefit entitlement. Sample checking of work has taken place with staff to ensure the verification check list is completed. The number of verification checks not completed has reduced. So far this year out of claims checked there has been a satisfactory verification checklist in place for 99.12% of checked claims ( 11 claims out of 1,245 checked did not have a VF checklist completed). This is picked up and addressed with staff at regular supervision meetings.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

6.1 Nothing to add to report.

### 6.2. Borough Treasurer

Annual accounts are closed within the department by the first week of May this includes a calculation of the subsidy due based on the classification and amount of allowances paid.

Any subsequent qualification of the Housing Benefit Subsidy Claim by the District Auditor is therefore not reflected in the accounts and has to be reported through budget monitoring.

As stated in the report the authority is aware that any errors in assessment must be kept to a minimum and measures are taken to achieve this in order to eliminate any over claims but also to maximise subsidy.

The Department for Work and Pensions has the final decision whether to make any adjustments to the claim based on the auditor's qualification letter and representations from the authority.

#### Equalities Impact Assessment

- 6.3 An Equality Screening Form is included at the end of this report.

#### Strategic Risk Management Issues

- 6.4 Failure to address the issues contained in the audit may result in the Council losing subsidy for the benefit payments it makes. This report has commented on the progress made in implementing the Action Plan to address those issues.

## **7 CONSULTATION**

#### Principal Groups Consulted

- 7.1 Not applicable.

#### Method of Consultation

- 7.2 Not applicable.

#### Representations Received

- 7.3 Not applicable.

#### Background Papers

Certification of claims and returns annual report Bracknell Forest Council Audit 2009/10  
Housing and Council tax draft audit report March 2011

#### Contact for further information

Simon Hendey  
Chief Officer: Housing  
DD Telephone No. 01355 351879  
e-mail: [simon-hendey@bracknell-forest.gov.uk](mailto:simon-hendey@bracknell-forest.gov.uk)

#### Doc. Ref

## Equalities Screening Record Form

<b>Date of Screening: 10 June 2011</b>		<b>Directorate: ECC</b>	<b>Section: Benefits</b>
<b>1. Activity to be assessed</b>		Certification of benefit subsidy claim and internal audit housing and council tax benefit part 2.	
<b>2. What is the activity?</b>		<input type="checkbox"/> Policy/strategy <input type="checkbox"/> Function/procedure <input type="checkbox"/> Project x Review <input type="checkbox"/> Service <input type="checkbox"/> Organisational change	
<b>3. Is it a new or existing activity?</b>		<input type="checkbox"/> New   x Existing	
<b>4. Officer responsible for the screening</b>		Shanaz Alam	
<b>5. Who are the members of the EIA team?</b>		Shanaz alam, Rosie Corah	
<b>6. What is the purpose of the activity?</b>		Action Plan to respond to audit findings	
<b>7. Who is the activity designed to benefit/target?</b>		All benefit recipients	
<b>8. a Racial equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.		Y	The proposed actions should improve service delivery to all benefit recipients
<b>8. b What evidence do you have to support this?</b> E.g equality monitoring data, consultation results, customer satisfaction information etc.		Benefit customers are monitored on a regular basis to assess take up of the benefit services.	
<b>9. a Gender equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.		Y	The proposed actions should improve service delivery to all benefit recipients.
<b>9. b What evidence do you have to support this?</b>		Benefit customers are monitored on a regular basis to assess take up of the benefit services	
<b>10. a Disability equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.		Y	The proposed actions should improve service delivery to all benefit recipients
<b>10. b What evidence do you have to support this?</b>		Benefit customers are monitored on a regular basis to assess take up of the benefit services	
<b>11. a Age equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.		Y	. The proposed actions should improve service delivery to all benefit recipients
<b>11. b What evidence do you have to support this?</b>		Benefit customers are monitored on a regular basis to assess take up of the benefit services	
<b>12. a Religion and belief equality - Is there an impact?</b> What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.		Y	The proposed actions should improve service delivery to all benefit recipients

Unrestricted

12. b What evidence do you have to support this?	Benefit customers are monitored on a regular basis to assess take up of the benefit services		
13. a Sexual orientation equality - Is there an impact? What kind of equality impact may there be? Is the impact positive or adverse or is there a potential for both? If the impact is neutral please give a reason.	Y		The proposed actions should improve service delivery to all benefit recipients
13. b What evidence do you have to support this?	Benefit customers are monitored on a regular basis to assess take up of the benefit services		
14. Please give details of any other potential impacts on any other group (e.g. those on lower incomes/carers/ex-offenders) and on promoting good community relations.	The nature of the benefit service is that it is targeted at low income and vulnerable households.		
15. If an adverse/negative impact has been identified can it be justified on grounds of promoting equality of opportunity for one group or for any other reason?	The service should generate a positive impact on those households.		
16. If there is any difference in the impact of the activity when considered for each of the equality groups listed in 8 – 14 above; how significant is the difference in terms of its nature and the number of people likely to be affected?	No		
17. Could the impact constitute unlawful discrimination in relation to any of the Equality Duties?		N	
18. What further information or data is required to better understand the impact? Where and how can that information be obtained?	Data collection on all equality groups who receive the benefit service will be improved during 2011/12..		
19. On the basis of sections 7 – 17 above is a full impact assessment required?		N	The Action Plan proposed actions which will improve the general operation of the benefit administration system and there are no specific acts which are directed at any specific group of benefit recipients..
20. If a full impact assessment is not required; what actions will you take to reduce or remove any potential differential/adverse impact, to further promote equality of opportunity through this activity or to obtain further information or data? Please complete the Action Plan in full, adding more rows as needed.			
Action	Timescale	Person Responsible	Milestone/Success Criteria
Improve collection rate of equality monitoring information.	03/2012	Shanaz alam	Improvement in the percentage
21. Which service, business or work plan will these actions be included in?	Benefit service plan		
22. Have any current actions to address issues for any of the groups or examples of good practice been identified as part of the screening?	None		
23. Chief Officers signature.	Signature:		Date:
24. Which PMR will this screening be reported in?			

Unrestricted

When complete please send to [abby.thomas@bracknell-forest.gov.uk](mailto:abby.thomas@bracknell-forest.gov.uk) for publication on the Council's website.

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**TO: GOVERNANCE AND AUDIT COMMITTEE  
24 JANUARY 2012**

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## **TREASURY MANAGEMENT REPORT (Borough Treasurer)**

### **1 PURPOSE OF DECISION**

- 1.1 To review the Treasury Management Report.

### **2 RECOMMENDATION**

- 2.1 **That the Committee review the Treasury Management Report prior to its approval by Council.**

### **3 REASONS FOR RECOMMENDATION(S)**

- 3.1 The Local Government Act 2003 requires a local authority to “have regard to” guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector. The Code of Practice recommends that a responsible body be nominated by the Council and having examined and assessed the effectiveness of the treasury management strategy and policies recommend them to Council. The Council has nominated the Governance and Audit Committee as the responsible body

### **4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 None

### **5 SUPPORTING INFORMATION**

- 5.1 The Local Government Act 2003 requires a local authority to “have regard to” guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 5.2 Under the requirements of the Prudential Code, the Council must set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. The attached Treasury Management Report outlines the Council’s Prudential Indicators for 2012/13 to 2014/15 and sets out the expected treasury operations for this period.
- 5.3 The Code of Practice recommends that a responsible body be nominated by the Council and having examined and assessed the effectiveness of the treasury management strategy and policies recommend them to Council. At its meeting on 2

March 2011 Council nominated the Governance and Audit Committee as the responsible body.

- 5.4 The attached Treasury Management Report was approved by the Executive, as a part of the Council's overall budget proposals, on 13 December 2011. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 29 February 2012, as a part of the overall budget package and resolution on the Council Tax for 2012/13.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 Nothing to add to the report.

### Borough Treasurer

- 6.2 Investment income is an integral part of the Council's budget and the management of investments and their associated risk is a key element of the Council's overall financial management arrangements. The primary focus is on the security of the capital sum invested and this is reflected throughout the Treasury Management Report and associated documents.

### Equalities Impact Assessment

- 6.3 None required.

### Strategic Risk Management Issues

- 6.4 The Treasury Management Report deals directly with the strategic management of risk associated with the Council's treasury management activities.

## **7 CONSULTATION**

### Principal Groups Consulted

- 7.1 The Overview & Scrutiny Commission will be consulted on the budget proposals which include the Treasury Management Strategy and may also choose to direct specific issues to individual overview and scrutiny panels.

### Method of Consultation

- 7.2 Targeted consultation exercises will be undertaken with business rate payers, the Senior Citizens' Forum, the Schools Forum, Parish Councils and voluntary organisations. In addition, this Strategy is publicly available to any individual or group who wish to comment on any proposal included within it.

### Representations Received

- 7.3 The Consultation Period remains open until 24<sup>th</sup> January 2012



Background Papers

CIPFA Code of Practice on Treasury Management in the Public Sector  
CIPFA Prudential Code  
Revenue Budget 2012/13 – Executive Report 13 December 2011

Contact for further information

Alan Nash – 01344 352180  
[Alan.nash@bracknell-forest.gov.uk](mailto:Alan.nash@bracknell-forest.gov.uk)

Calvin Orr – 01344 352125  
[Calvin.orr@bracknell-forest.gov.uk](mailto:Calvin.orr@bracknell-forest.gov.uk)

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2012-13 - Governance & Audit Committee 240112.doc

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**TREASURY MANAGEMENT REPORT**

- 1.1 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.
- 1.2 This report outlines the Council’s prudential indicators for 2012/13 – 2014/15 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:
- The reporting of the prudential indicators setting out the expected capital activities at Annex E(i) (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities).
  - The Council’s Minimum Revenue Provision (MRP) Policy at Annex E(ii), which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
  - The Treasury Management Strategy Statement which sets out how the Council’s treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003 and shown at Annex E(iii);
  - The Annual Investment Strategy which sets out the Council’s criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance and is shown in Annex E(iv).

## **The Capital Prudential Indicators 2012/13 – 2014/15**

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems.

Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity and as such the Treasury Management Strategy for 2012/13 to 2014/15 complements these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

### **The Capital Expenditure Plans**

The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.

This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to the impact of the recession on the property market, similarly the proceeds from the Right-to-Buy sharing agreement with Bracknell Forest Homes will also be impacted on by the wider economy.

The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

<b>Capital Expenditure</b>	<b>2012/13 Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>
Capital Expenditure	22,430	11,628	13,793
<b>Financed by:</b>			
Capital receipts	3,000	3,000	3,000
Capital grants	12,945	3,045	3,815
Capital reserves	0	0	0
Revenue	0	0	0
<b>Net financing need for the year</b>	<b>6,485</b>	<b>5,583</b>	<b>6,978</b>

### **The Council's Borrowing Need (the Capital Financing Requirement)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Due to the nature of some of the capital expenditure identified above (ie grant), an element will be immediately impaired or will not qualify as capital expenditure for CFR purposes. As such the net financing figure above may differ from that used in the CFR calculation.

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP). No additional voluntary payments are planned.

The Council is asked to approve the CFR projections below:

	<b>2012/13 Estimate £000</b>	<b>2013/14 Estimate £000</b>	<b>2014/15 Estimate £000</b>
<b>Capital Financing Requirement</b>			
<b>Total CFR</b>	<b>37,098</b>	<b>39,471</b>	<b>41,270</b>
<b>Movement in CFR</b>	<b>2,373</b>	<b>1,799</b>	<b>1,799</b>

<b>Movement in CFR represented by</b>			
Net financing need for CFR purposes	3,472	3,000	3,000
Less MRP/VRP and other financing movements	1,009	1,201	1,201
<b>Movement in CFR</b>	<b>2,373</b>	<b>1,799</b>	<b>1,799</b>

CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Statement attached in Annex E(ii)

**Affordability Prudential Indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Estimates of the ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	<b>2012/13 Estimate</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>
<b>Ratio</b>	-0.64%	-0.07%	+0.26%

The estimates of financing costs include current commitments and the proposals in the Capital Programme Budget report.

Incremental impact of capital investment decisions on the Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	<b>Forward Projection 2012/13</b>	<b>Forward Projection 2013/14</b>	<b>Forward Projection 2014/15</b>
<b>Council Tax - Band D</b>	£1.45	£1.86	£3.83

### **Minimum Revenue Provision (MRP) Policy Statement**

The concept of the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to make an annual charge to the General Fund of 4% of the General Fund Debt.

These regulations have now been amended and Department for Local Government & Communities (DCLG) issued new regulations in 2008 which require a local authority to calculate for the current financial year an amount of MRP which it considers “prudent”. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or in the case of borrowing supported by government, reasonably commensurate with the period implicit in the determination of the grant. The Council can choose to charge more than the minimum.

It is a requirement of these new regulations that full Council approve an annual MRP Statement of its policy on making MRP.

As capital expenditure is incurred which cannot be immediately financed through capital receipts or grant the Council’s borrowing need (its Capital Financing Requirement) will be positive and an MRP will be required. In practice the Council is unlikely to need to borrow externally in the medium term as it has sufficient revenue investments, arising from the Council’s reserves and balances to cover this expenditure. However it will still need to make a charge to revenue for this “internal borrowing”.

The move to International Financial Reporting Standards (IFRS) in local government is expected to bring more PFI schemes on balance sheet and to result in some leases (or parts of leases) being reclassified as finance lease instead of operating leases. These contracts would become subject to the requirement to provide MRP. IFRS requires these changes to be accounted for retrospectively. With the result that an element of the rental or service charge payable in previous years will be taken to the balance sheet to reduce the liability. On its own this change would result in a one-off increase to the capital financing requirement, and an equal increase in revenue account balances. This is not seen as a prudent course of action and as such the guidance recommends the inclusion in the annual MRP charge of an amount equal to the amount that has been taken to the balance sheet to reduce the liability, including the retrospective element in the first year.

The guidance sets out four options for making MRP. It envisages that authorities can distinguish between borrowing that is “supported” (through the RSG system) and other “unsupported or prudential” borrowing. The first two methods should only be used for “supported” borrowing

- 1) The regulatory method. This involves following the existing practice outlined in the former DCLG regulation. For the Council this is essentially the same as the CFR method.
- 2) The CFR Method. This involves setting the MRP equal to 4% of the Capital Financing Requirement at the end of the preceding year.
- 3) The Asset Life Method. This method requires MRP to be charged over the asset life. The asset life is determined in the year MRP commences and is not changed. MRP will not be charged until the asset becomes operational.

Therefore it will be possible to take an MRP holiday for those assets in construction.

- 4) The Depreciation Method. This requires the MRP to equal the actual depreciation based on standard accounting procedures.

### **Recommended Policy**

In setting the 2012/13 budget and beyond the following policy is recommended:

- 1) There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.
- 2) The Council will identify the level of “supported borrowing” and use the CFR Method i.e 4% of this figure as part of the MRP charge. The supported borrowing will be used in full irrespective of the service block the funding was allocated in the grant settlement and will also be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy. For the remaining “unsupported borrowing” the Council will use the asset life method.

The actual charge made in the year will be based on applying the above policy to the previous years actual capital expenditure and funding decisions. Therefore the 2012/13 charge will be based on 2011/12 capital out-turn.



## TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex E(i) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice - 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This Council adopted the Code of Practice on Treasury Management in March 2002, and will adopt the revised Code.

As a result of adopting the Code the Council also adopted a Treasury Policy Statement. This adoption is the requirement of one of the prudential indicators.

The Code of Practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;

### Debt and Investment Projections 2012/13 – 2014/15

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The Council does not anticipate any external borrowing over the period 2012/13 to 2013/14, but projects that it will be required to borrow externally in 2014/15. The table below highlights the expected change in investment balances.

£'000	2012/13 Estimated	2013/14 Estimated	2014/15 Estimated
<b>External Debt</b>			
Debt at 31 March	0	0	6,000
<b>Investments</b>			
Investments at 31 March	12,000	3,000	0

### Limits to Borrowing Activity

Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Borough Treasurer reports that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### The Authorised Limit for External Debt

A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised limit £000	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Borrowing	26,000	28,000	30,000
Other long term liabilities	19,000	19,000	18,000
Total	45,000	47,000	48,000

### Operational Boundary for External Debt

The Authority is also recommended to approve the operational Boundary for external debt for the same period. The proposed Operational Boundary is based on the same estimates as the Authorised Limit but reflects directly the estimate of the most likely but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements.

Operational Boundary £m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Borrowing	24,000	26,000	28,000
Other long term liabilities	17,000	17,000	16,000
Total	41,000	43,000	44,000

### Borrowing in advance of need.

The Borough Treasurer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Borough

Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. However given the level of investments projected for 2013/14 it is not expected that any borrowing in advance of need will be required in 2012/13.

### Expected Movement in Interest Rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector central view on the future levels of the Bank Rate

#### Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWL B Rates*		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec 2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90

\* Borrowing Rates

Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession. Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

This challenging and uncertain economic outlook has several key treasury management implications.

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods
- Investment returns are likely to remain relatively low during 2012/13

### Borrowing Strategy 2012/13

Given the level of current investments, the Council does not envisage any long-term borrowing in 2012/13 although the Authorised Limit for External Debt has been set to enable the Council to manage its cash flow effectively through the use of temporary borrowing, in the unlikely event that this should be necessary.

## Investment Strategy 2012/13 – 2014/15

### Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

### Key Objectives

The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background outlined in the Treasury Management Strategy, the current investment climate has one over-riding risk consideration that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which maintains the tightened controls already in place in the approved investment strategy.

### Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Borough Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Council may use rather than defining what its investments are.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with the CLG's Guidance and the 2011 CIPFA TM Code.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

In accordance with the Investment Guidance, the Council will, in considering the security of proposed investments, follow different procedures according to which of two categories, Specified or Unspecified, the proposed investment falls into.

Specified Investments offer high security and high liquidity and are:

- ◆ Denominated, paid and repaid in sterling;
- ◆ Not long term investments, i.e. they are due to be repaid within 12 months of the date on which the investment was made;
- ◆ Not defined as capital expenditure; and
- ◆ Are made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency or are made with the UK Government or a Local Authority in England, Wales, Scotland or Northern Ireland.

Non-Specified Investments are those which do not meet the definition of Specified Investments.

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- ◆ UK Banks and Building Societies – must meet the minimum following credit criteria

<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
Short Term F1	Short Term P1	Short Term A1
Individual A Support 1 to 3	Financial Strength C	
Individual A/B Support 1 to 3		
Individual B Support 1 to 3		
Individual B/C Support 1 to 2		

- ◆ In addition to the criteria above part nationalised UK Banks (Lloyds Bank and Royal Bank of Scotland). These banks can be included if they continue to be part nationalised or they meet the ratings above.
- ◆ Money Market Funds – AAA Rating Sterling Denominated
- ◆ UK Government (including gilts and Debt Management Account Deposit Facility (DMADF))
- ◆ UK Local Authorities

#### **Country and sector considerations.**

Due care will be taken to consider the country, group and sector exposure of the Council's investments. The current investment strategy limits all investments to UK Banks and Building Societies.

#### **Use of additional information other than credit ratings.**

Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

**Time and Monetary Limits applying to Investments.**

The time and monetary limits for institutions on the Council's Counterparty List are as follows (the monetary limits will cover both Specified and Non-Specified Investments):

	Money Limit	Time Limit
<b>UK Banks and Building Societies</b>	£7m	364 days
<b>Money Market Funds</b>	£7m	n/a
<b>UK Government</b>	unlimited	364 days
<b>UK Local Authorities</b>	£7m	364 days

The proposed criteria for Specified and Non-Specified investments are attached to this document.

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded however the current investment limits for 2012/13 restrain all investments to less than 1 year. Any amendment to this strategy will require the credit-criteria to be amended to include a long-term rating. This will be addressed through the formal approval by Council of a revised Treasury Management Strategy and Annual Investment Strategy.

**Economic Investment Considerations**

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. The UK Bank Rate is forecast to rise from quarter 3 of 2013, however there are downside risks to this forecast (ie start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the 2% inflation target.

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Borough Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (a Government body which accepts local authority deposits), Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

### Icelandic Bank Investments

The Icelandic courts have supported the view that the Council be treated as a preferred creditor, thereby seeing a high proportion of the investment being returned. The actual repayment is currently expected to be partially in foreign currency assets. It is currently too early to provide a definitive policy on how this exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

### Sensitivity to Interest Rate Movements

Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management income for next year. That element of the investment portfolio which is of a longer term, fixed interest rate nature will not be affected by interest rate changes.

£'000	2012/13 Estimated + 1%	2012/13 Estimated - 1%
<b>Revenue Budgets</b>		
Investment income	250	250

### Treasury Management Limits on Activity

There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the limits:

	2012/13	2013/14	2014/15
<b>Interest rate Exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	£37m	£40m	£41m
<b>Limits on variable interest rates based on net debt</b>	£15m	£20m	£21m

<b>Maturity Structure of fixed interest rate borrowing 2012/13</b>			
		<b>Lower</b>	<b>Upper</b>
Under 12 months		0%	100%
12 months to 2 years		0%	0%
2 years to 5 years		0%	0%
5 years to 10 years		0%	0%
10 years and above		0%	0%
<b>Maximum principal sums invested &gt; 364 days</b>			
Principal sums invested > 364 days	£m	£m	£m
	0	0	0

### **Performance Indicators**

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. For 2012/13 the Council does not expect to enter into any borrowing and as such the relevant benchmark will relate only to investments and will be the "7 Day LIBID Rate". The results of these indicators will be reported in the Treasury Annual Report.

### **Treasury Management Advisers**

The Council uses Sector as its treasury management consultants. The Council recognises that responsibility for treasury management decision remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

### **Member and Officer Training**

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Following the nomination of the Governance and Audit Committee to examine and assess the effectiveness of the Treasury Management Strategy and Policies, initial training was provided to the Committee in November 2010. Further training is planned for 2012. Officer training is carried out in accordance with best practice and outlined in TMP 10 Training and Qualifications to ensure that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them.

### **Risk Benchmarking**

Yield benchmarks are currently used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature. The Council will review the practical application of such indicators over the coming year and will work in conjunction with the Council's Treasury management advisers and Members to implement a scheme of risk benchmarks that adds value to the treasury management function.



**SPECIFIED INVESTMENTS**

*All investments listed below must be sterling-denominated.*

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
<b>Debt Management Agency Deposit Facility*</b> (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	In-house	364 Days
<b>Term deposits</b> with the UK government or with Local Authority in England, Wales, Scotland or Northern Ireland with maturities up to 364 Days	No	Yes	High security although LAs not credit rated.	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
<b>Term deposits</b> with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 364 Days	No	Yes	<i>See credit grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
<b>Certificates of Deposit</b> issued by credit-rated deposit takers (banks and building societies) : up to 364 Days. <i>Custodial arrangement required prior to purchase</i>	No	Yes	<i>See credit grid</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days
<b>Gilts</b> : up to 364 Days	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
<b>Money Market Funds</b> <i>These funds do not have any maturity date</i>	No	Yes	<i>AAA Rating by Fitch, Moodys or S&amp;P</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
<b>Forward deals</b> with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	<i>See Credit Grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	1 year in aggregate
<b>Commercial paper</b> <i>[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]</i> Custodial arrangement required prior to purchase	No	Yes	<i>See Credit Grid</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
<b>Treasury bills</b> <i>[Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]</i> Custodial arrangement required prior to purchase	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	1 year

## NON-SPECIFIED INVESTMENTS

*All investments listed below must be sterling-denominated.*

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemable</u> <u>within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum credit</u> <u>rating **</u>	<u>Circumstance of</u> <u>use</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
Deposits with Authority's Banker where credit rating has dropped below minimum criteria	Where the Council's bank no longer meets the high credit rating criteria set out in the Investment Strategy the Council has little alternative but to continue using them, and in some instances it may be necessary to place deposits with them, these deposits should be of a very short duration thus limiting the Council to daylight exposure only (i.e. flow of funds in and out during the day, or overnight exposure).	No	Yes	n/a	In-House	364 Days
<b>Term deposits</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	See <i>Credit grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	5 Years
<b>Certificates of Deposit</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	See <i>Credit grid</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	5 years

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemable</u> <u>within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum Credit</u> <u>Rating?</u>	<u>Circumstance of</u> <u>use</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
<b>Callable deposits</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity.  (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	See <i>Credit Grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	5 years
<b>UK government gilts</b> with maturities in excess of 1 year  <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	10 years including but also including the 10 year benchmark gilt

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum credit rating **</u>	<u>Circumstance of use</u>	<u>Maximum maturity of investment</u>
<b>Forward deposits</b> with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	<i>See Credit Grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	<i>5 years</i>
<b>Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution</b> : any maturity	(A) Credit standing of parent will determine ultimate extent of credit risk	No	Yes	<i>See Credit Grid</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	<i>1 year</i>

### Credit Criteria Grid 2012/13

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- ◆ UK Banks and Building Societies – must meet the minimum following credit criteria

<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
Short Term F1	Short Term P1	Short Term A1
Individual A Support 1 to 3	Financial Strength C	
Individual A/B Support 1 to 3		
Individual B Support 1 to 3		
Individual B/C Support 1 to 2		

- ◆ In addition to the criteria above part nationalised UK Banks (Lloyds Bank and Royal Bank of Scotland). These banks can be included if they continue to be part nationalised or they meet the ratings above.
- ◆ Money Market Funds – AAA Rating Sterling Denominated
- ◆ UK Government (including gilts and Debt Management Account Deposit Facility (DMADF))
- ◆ UK Local Authorities

**Time and Monetary Limits applying to Investments** - The time and monetary limits for institutions on the Council's Counterparty List are as follows (the monetary limits will cover both Specified and Non-Specified Investments):

	<b>Money Limit</b>	<b>Time Limit</b>
<b>UK Banks and Building Societies</b>	£7m	364 days
<b>Money Market Funds</b>	£7m	n/a
<b>UK Government</b>	unlimited	364 days
<b>UK Local Authorities</b>	£7m	364 days

TO: GOVERNANCE AND AUDIT COMMITTEE  
24<sup>TH</sup> JANUARY 2012

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## ANTI-FRAUD AND CORRUPTION POLICY BOROUGH TREASURER

### 1 PURPOSE OF REPORT

- 1.1 To present the revised Anti-Fraud and Corruption Policy for review and approval.

### 2 RECOMMENDATION

- 2.1 The Governance and Audit Committee review and approve the attached Anti-Fraud and Corruption Policy at Appendix A.

### 3 REASONS FOR RECOMMENDATION

- 3.1 To ensure that the Council's Anti-Fraud and Corruption Policy is up to date and consistent with the current Financial Regulations.

### 4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There is no alternative.

### 5 SUPPORTING INFORMATION

- 5.1 In 2011 the National Fraud Authority estimated that fraud against Councils exceeds more than £2bn per year. Local authorities have a responsibility to ensure that they have adequate anti-fraud and corruption procedures. The Council has developed its counter fraud framework which is set out in the Counter Fraud Strategy. This draws together the measures in place for countering fraud including the Anti-Fraud and Corruption, Disciplinary, Whistle Blowing and Benefit Fraud Policies and the Financial Regulations. The Strategy sets out time frames for review of individual elements of the framework to ensure these are updated on a regular basis and remain fit for purpose.
- 5.2 In line with the Strategy, the Council's Anti-Fraud and Corruption Policy is due for review and has now been revised to ensure it is up to date and consistent with the latest Financial Regulations. The Policy is now attached at Appendix A for review and approval.

### 6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 Nothing to add to the report.

Borough Treasurer

- 6.2 As a member of the Corporate Governance Working Group the Borough Treasurer was involved in updating the Anti-Fraud and Corruption Policy.

Equalities Impact Assessment

- 6.3 Not applicable.

Strategic Risk Management Issues

- 6.4 The Audit Commission's 2010/11 survey of frauds in local authorities identified a 37% increase in detected fraud losses with the number of fraud cases also increasing. It is vital for the Council to have robust and up to date policies in place to respond to the increased risk of fraud and corruption.

**7 CONSULTATION**

Principal Groups Consulted

- 7.1 Governance Working Group and the Corporate Management Team.

Method of Consultation

- 7.2 The revised Policy was reviewed at the Governance Working Group on 5<sup>th</sup> December and suggested amendments made before being reviewed by the Corporate Management Team on 21<sup>st</sup> December 2011.

Representations Received

- 7.3 Not applicable.

Background Papers

Counter Fraud Strategy

Contact for further information

Sally Hendrick, Head of Audit and Risk Management - 01344 352092  
Sally.hendrick@bracknell-forest.gov.uk



## ANTI- FRAUD AND CORRUPTION POLICY

### 1 INTRODUCTION

- 1.1 Bracknell Forest Council seeks to provide high quality services and secure value for money for the citizens of Bracknell Forest. Fraud and corruption undermines these aims by diverting resources from legitimate activities, damaging public confidence in the Council and adversely affecting staff morale.
- 1.2 The public are entitled to expect any local authority to conduct its affairs with integrity, honesty and openness, and to demand the highest standards of conduct from those working for it. **The Council is committed to protecting the public funds entrusted to it and has a zero- tolerance policy regarding fraud and corruption.**
- 1.3 The Anti- Fraud and Corruption Policy forms part of the overall counter fraud and corruption framework which is set out in the Counter Fraud and Corruption Strategy. The Policy embodies a series of measures designed to frustrate any attempted fraudulent or corrupt act including bribery and the steps taken if such an act occurs. This has been separated into three areas:
- Culture;
  - Prevention; and
  - Detecting and Investigating.

### 2 CULTURE

- 2.1 The Council will not tolerate fraud nor any form of corruption including bribery in the administration of its responsibilities, whether from inside or outside the Authority and is committed to creating an anti fraud and corruption culture. The Borough Treasurer is responsible for the development and maintenance of an anti-fraud and anti-corruption policy. Senior managers are required to deal swiftly and firmly with those who defraud or attempt to defraud the authority.
- 2.2 Members and staff are expected to lead by example by working within the Council's framework of guidance i.e. Code of Conduct for Employees, Code of Conduct for Members, Member/Officer Protocol, Financial Regulations and Contract Standing Orders. Copies of these policies may be obtained from Corporate Human Resources and Finance, respectively. In addition, the Council expects all its suppliers, contractors, agents, partner organisations and individuals to act honestly and with integrity.
- 2.3 The Council wishes to encourage all citizens and customers of its services to report any suspicions and concerns as to possible fraud or corruption they may have about any aspect of the Council's work. This can be done by speaking to either:
- Their Ward Councillor; or

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- The relevant Service Director; or
- The Council's Borough Treasurer; or
- The Council's Borough Solicitor.

2.4 It is the Council's aim to create an atmosphere of honesty and openness amongst its staff. Staff may raise any concerns they may have about cases of potential fraud and corruption with:

- Their Line Manager; or
- Their Director; or
- The Chief Executive; or
- The Director of Corporate Services; or
- The Borough Solicitor; or
- The Borough Treasurer; or
- The Head of Audit and Risk Management; or
- The Council's External Auditors.

2.5 It is acknowledged that staff may feel reluctant to express their concerns for fear of being disloyal to their colleagues or to the Council or from fear of harassment or victimisation so alternatively may wish to raise their concerns under the Council's Whistleblowing Policy. This is available to all employees including agency employees working for the Council as well as organisations providing goods or services or carrying out works for the Council. The Policy is in place to encourage and provide a mechanism to enable those to whom the procedure applies to raise serious concerns without fear of reprisal. The Policy can be obtained from Corporate Human Resources.

2.6 Whichever route is taken, the Council will ensure that complete anonymity and confidentiality is maintained at all times; all information received will be treated with respect and given appropriate care and consideration. Likewise, where sufficient information is given, anonymous phone calls, letters etc will be seriously investigated.

### **3 PREVENTION**

3.1 The Council firmly believes that prevention is fundamental to beating fraud and corruption and it is essential to minimise the exposure to opportunities for fraud by instilling an anti-fraud culture amongst employees and Members and creating a robust system of internal controls.

#### **3.2 Employees**

3.2.1 The Council views its employees as its most important resource and recognises that its employees are the first line of defence in preventing fraud. Particular importance is attached to the recruitment process to ensure the best calibre of staff are appointed for each position. Appointment panels will obtain candidate references to verify their suitability, honesty and integrity and agencies used to supply staff will be asked to provide appropriate references and checks are undertaken to verify the identity and right to work of all potential employees. For certain posts, due to the nature of the work and the potential for working with

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vulnerable people, the Council will also carry out vetting checks to confirm whether a potential employee has a criminal record and, if so, whether this would conflict with the post applied for.

- 3.2.2 All staff employed will be bound by the Council's Code of Conduct for Employees. This states that employees should not place themselves in situations where their honesty and integrity may be questioned. The Code specifically covers the receipt and declaration of gifts and hospitality ( which is also covered in more detail in the Council's Policy for Councillors and Employees on Travel, Subsistence, Other Expenses and Hospitality), misuse of any information obtained in the course of their employment for personal gain or benefit and conflicts of interest. Staff who are members of professional bodies will also be expected to abide by any codes of conduct issued by those bodies.
- 3.2.3 The Disciplinary Procedure operated by the Council will be used to instigate and progress actions against staff involved in perpetrating fraud or corruption. The Procedure will be used regardless of whether the Police have been involved and/or any legal proceedings are being taken against the member of staff.
- 3.2.4 Training is recognised as essential for the successful detection, investigation and prevention of fraud and corruption. Adequate financial resources will be provided to enable staff to attend training courses and seminars in order to remain conversant with current developments and initiatives.

### **3.3 Members**

- 3.3.1 As elected representatives of the public, all Council Members have a duty to be fair, honest and open in their role and are required to operate within:-
- Government legislation,
  - The Council's Code of Conduct for Members
- 3.3.2 In addition the following internal policies outline best practice:
- Council Standing Orders and Financial Regulations; and
  - Locally adopted codes of conduct e.g. Member/Officer protocol.
- 3.3.3 In particular, Members are required to declare and register any pecuniary and non pecuniary interests in accordance with the Code of Conduct for Members and the Localism Act 2011.

### **3.4 Systems of Internal Control**

- 3.4.1 The risk of fraud and corruption can be mitigated by robust financial management and a sound system of internal control. The Council has adopted a Constitution incorporating a Scheme of Delegations, Financial Regulations and Contract Standing Orders which provide framework for financial control within the Authority. All staff are required to act in accordance with these procedures when carrying out their duties.

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- 3.4.2 The Borough Treasurer, as the Section 151 Officer, has a statutory duty to ensure that proper arrangements are made to administer the Council's finances. In that capacity he advises the Council on changes to the systems of control, finance and administration and their associated rules and regulations.
- 3.4.3 Each Council section has a responsibility for ensuring that its own system of controls secure probity and identify, prevent, deter and limit the extent of fraud and corruption. It is the responsibility of all managers to ensure that there are adequate controls in place within the systems for which they are responsible and that these are complied with at all times. An effective system of internal controls will include:
- adequate segregation of duties;
  - proper authorisation and approval procedures;
  - adequate physical security over assets; and
  - reliable monitoring and reporting arrangements.
- 3.4.4 Support is provided in this by Internal Audit. The Borough Treasurer is responsible for ensuring that there are satisfactory internal audit arrangements in place to satisfy the Council's statutory requirement to maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with proper practices. Internal Audit's planned work takes into account all factors affecting systems (including known and perceived risks) and the adequacy of existing controls. Audit plans are regularly reviewed and revised to take account of new developments
- 3.4.5 The Director of Environment, Culture and Communities has responsibility for administering Housing and Council Tax Benefits. Support is provided by specialist resources to investigate any claims which are suspected of being fraudulent or containing material untruths. Should investigations reveal wider aspects and/or Council staff are implicated then the matter will be reported to the Borough Treasurer for further action.

## **4 INVESTIGATION AND DETECTION**

- 4.1 The Council recognises that even the best controls may not prevent fraud or corruption. It therefore requires that any cases of suspected fraud or irregularity including bribery are reported to the Borough Treasurer immediately as specified in Financial Regulations.
- 4.2 The Council will investigate all fraud and corruption committed against the Authority by individuals and/or organisations. All cases of fraud and corruption including bribery will be investigated and dealt with irrespective of the identity of the perpetrator. Investigations will be carried out with due diligence and within the legislative framework governing actions by individuals involved in the investigation of crime and/or offences. The Borough Treasurer shall be consulted and will approve the specific arrangements for investigating each case of suspected fraud.

### **4.3 Exchange of Information**

4.3.1 There are various arrangements in place for sharing of data internally within the Council and for the regular exchange of information between the Council and other local authorities and agencies for the purpose of preventing and detecting fraud. These include participation in data matching across a range of public service organisations in order to detect fraud and erroneous payments.

4.3.2 The Data Protection Act 1998 allows that personal data processed for any of the purposes outlined below are exempt from non disclosure provisions:

- The prevention or detection of crime.
- The apprehension or prosecution of offenders.
- The assessment or collection of any tax or duty or of any imposition of a similar nature.

4.3.3 Personal data is any data which would enable a person to be identified from the information provided. If personal data is to be disclosed for the reasons detailed above, only the minimum amount of data to satisfy the purpose will be disclosed. Questions about the interpretation of this paragraph should be addressed in the first instance to the Council's Information Compliance Officer and the Borough Solicitor.

### **4.4 Prosecution Policy**

4.4.1 The Borough Treasurer shall consider during the course of any investigation or, as appropriate, at its conclusion whether the matter may require investigation by the Police.

4.4.2 Whilst the Council acknowledges that the Crown Prosecution Service make the ultimate decision on whether to proceed with a prosecution, the Police will be involved in all appropriate cases and prosecution sought if there is sufficient evidence.

## **5 Conclusion**

5.1 The Council's systems of control will be maintained and regularly reviewed. Managers are charged with ensuring controls are maintained which are sufficient to detect and prevent fraud and corruption. The Borough Treasurer is responsible for ensuring that systems and controls are audited and the Council will ensure that every possible support is given to maintain an environment which makes fraud and corruption difficult to perpetrate.

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