

AGENDA



| |
|---|
| For a meeting of the |
| GOVERNANCE AND AUDIT COMMITTEE |
| to be held on |
| THURSDAY, 6 DECEMBER 2012 |
| at |
| 2.00 PM |
| in the |
| WITHAM ROOM, COUNCIL OFFICES, ST. PETER'S HILL, GRANTHAM. NG31 6PZ |
| Beverly Agass, Chief Executive |

| | |
|----------------------------|---|
| Committee Members: | Councillor Jean Bevan (Vice-Chairman), Councillor Trevor Scott, Councillor Rob Shorrocks, Councillor Ian Stokes (Chairman), Councillor Jeff Thompson, Councillor Martin Wilkins and Councillor Rosemary H Woolley |
| Committee Support Officer: | Jo Toomey 01476 406152 E-mail: j.toomey@southkesteven.gov.uk |

Members of the Committee are invited to attend the above meeting to consider the items of business listed below.

1. MEMBERSHIP

The Committee to be notified of any substitute members.

2. APOLOGIES

3. DISCLOSURE OF INTERESTS

Members are asked to disclose any interests in matters for consideration at the meeting.

4. MINUTES OF THE MEETING HELD ON 25 SEPTEMBER 2012

(Enclosure)

5. UPDATES FROM PREVIOUS MEETING

- Report number PD03 by Property Development Manager on Leases audit **(Enclosure)**
- Report number RIM0299 by Head of Community Assets on Repairs audit **(Enclosure)**

6. ANNUAL AUDIT LETTER 2011/12

(Enclosure)

7. INTERNAL AUDIT PROGRESS REPORT

Members will consider the Internal Audit progress report.

(Enclosure)

8. TREASURY MANAGEMENT MID-YEAR REVIEW

Report number HOF212 by the Head of Finance.

(Enclosure)

9. TREASURY MANAGEMENT STRATEGY UPDATE

Report number HOF214 by the Head of Finance.

(Enclosure)

10. CONTRACT PROCEDURE RULES UPDATE

Report number HOF213 by the Head of Finance.

(Enclosure)

11. BUSINESS CONTINUITY ANNUAL REPORT 2011/12

Report number CSL023 by the Community Safety and Licensing Service Manager.

(Enclosure)

12. ANY OTHER BUSINESS, WHICH THE CHAIRMAN, BY REASONS OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT.

MINUTES

**GOVERNANCE AND AUDIT
COMMITTEE
TUESDAY, 25 SEPTEMBER 2012**



COMMITTEE MEMBERS PRESENT

Councillor Bob Adams
Councillor Jean Bevan (Vice-Chairman)
Councillor Rob Shorrocks
Councillor Ian Stokes (Chairman)

Councillor Adam Stokes
Councillor Jeff Thompson
Councillor Martin Wilkins

OFFICERS

Strategic Director – Corporate Focus
(Daren Turner) - to minute 29
Head of Finance (Richard Wyles)
Head of Legal and Democratic Services
(Lucy Youles) – minute 32
Environmental Health Service Manager
(David Price) – minute 31
Planning Policy and Partnerships Service
Manager (Karen Sinclair) – minute 33
Corporate Safety Advisor (Helen Kettle)
– minute 31
Governance and Risk Officer (Tracey
Elliott)
Accountant (Gillian Goddard)
Principal Democracy Officer (Jo Toomey)

OTHER MEMBERS

Councillor Mike Taylor (Portfolio :
Strategic Resources – Well Run Council)

Paula Longden – Audit Commission

Rob Barnett – RSM Tennon
Kelly Waddoups – RSM Tennon

22. MEMBERSHIP

The Committee was notified that Councillor Adam Stokes would be substituting for Councillor Scott and Councillor Adams would be substituting for Councillor Woolley for this meeting only.

23. APOLOGIES

An apology for absence was received from Tony Crawley (Audit Commission).

24. DISCLOSURE OF INTERESTS

No interests were disclosed.

25. MINUTES OF THE MEETING HELD ON 23 JULY 2012

The minutes of the meeting held on 23 July 2012 were agreed as a correct record.

26. UPDATED FINANCIAL STATEMENTS

The Head of Finance presented report number HOF207, which summarised the updates made to the Statement of Accounts 2011-12, the supporting notes and the explanatory foreword. A paper was circulated at the meeting which gave details of three further addendums. Each of the presentational changes and improvements were requested by the Audit Commission. Councillors were asked to approve the Statement of Accounts with the addendums reported in HOF207 and circulated at the meeting.

27. ANNUAL GOVERNANCE REPORT 2011-12

Paula Longden from the Audit Commission summarised the Annual Governance Report, which included messages arising from the audit of the Council's financial statements and work to assess the Council's arrangements to secure value for money in its use of resources. Subject to the approval of the Statement of Accounts 2011-12, the Audit Commission expected to issue an unqualified audit opinion on the financial statements and conclude that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Audit Commission planned to award the audit certificate by 30 September 2012. No change was planned to the proposed Audit Fee.

Three material errors were identified in the financial statements and a number of non-trivial misstatements, which were corrected by management. Material errors were clarified as items of misclassification and note, not errors in the Council's accounting. The Committee noted that the 2011-12 Statement required further adjustments than accounts for previous years because of the loss of a key member of the finance team.

The Strategic Director – Corporate Focus thanked the Head of Finance and his team, together with the Audit Commission for the work they had done to produce the Statement of Accounts.

Officers addressed a question about the level of reserves. All reserves held by the Council had specific purposes and the Committee reviews the policy and their use as part of the annual outturn report. That the Council held higher reserves than a lot of other authorities was considered beneficial to respond to any future financial constraints particularly the imminent introduction of the

business rate retention scheme and the localisation of council tax benefit.

Council dwellings where the tenants were exercising their right to buy were not reclassified as held for sale. The change in classification should take place when an agreement to sell was signed by the Head of Finance.

The movement of the capital expenditure on council dwellings and repairs was queried. Work done to council properties was classified as an enhancement which improved the life of a property even if it did not affect its value.

In response to a question from a Councillor, the representative from the Audit Commission confirmed that good working papers had been provided.

28. STATEMENT OF ACCOUNTS 2011-12

The Committee was asked to approve the Statement of Accounts as circulated with the agenda papers and the addendum circulated at the meeting; it was also asked to note the outcome of the Audit Commission's work.

Decision:

- 1. The Governance and Audit committee approves the revised Statement of Accounts 2011/12.***
- 2. The Governance and Audit Committee notes the commentary on the outcome of audit work.***
- 3. The Governance and Audit Committee approves the publication of the summary of accounts and publication of the document on the Council's website.***

13:32 to 13:39 – the meeting was adjourned.

29. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Progress report was presented to the Committee. Six reports had been finalised (leases, asset management, corporate governance, creditors and procurement, repairs and a follow-up report). Two further reports were available in draft and awaiting management response, three reviews were under way and a further 13 reviews were planned to take place before the end of March 2013.

Seven days had been taken out of the contingency budget for an audit on the responsive repairs process and procedure. A further three days from the contingency budget would be used to review the potential fire risk at Council owned properties.

Two reviews were brought to the attention of the Committee: leases and repairs, both of which received red opinions, each with 3 high risk recommendations together with other medium and low risks. Briefing notes

from the relevant heads of service was circulated at the meeting, which addressed the issues raised in the audits.

Committee members queried implementation dates detailed in the report. Internal Audit representatives explained that the date was the latest date by which all recommendations should be completed; deadline dates for some recommendations would be earlier based on their urgency and the straightforwardness of implementation. Deadlines were agreed by internal audit with service managers. Councillors requested that when high risk recommendations were made, full details of each deadline should be made available to the Committee.

Councillors queried whether the information behind the recommendations relating to leases could explain some of the variances within the Statement of Accounts 2011-12. This was not the case as the audit findings identified the risk rather than it was actually occurring. However it was agreed that by ensuring the appropriate systems were in place in respect of leases and licences the Council would be able to track whether income due to the authority was received and that legal documents were current.

Committee members noted that the repairs service had recently undergone a lean systems review. Recommendations made by internal audit required the service to review staff capacity, quality control checks and the classification and prioritisation of repairs work.

14:10 – Councillor Thompson left the meeting.

Action Point

The Committee agreed that the Property Development Manager and the Head of Community Assets should submit reports for the next meeting's agenda and attend the next meeting (6 December 2012) to present and provide an update for the Committee.

30. INTERNAL AUDIT TRACKING REPORT

The Council's internal auditors, in their tracking report considered that South Kesteven District Council had made good progress in implementing actions agreed to address internal audit recommendations. Seven out of nine recommendations made in respect of high and medium risks had been implemented. Where recommendations had not been implemented, new deadlines had been agreed.

(Councillor Taylor left the meeting)

31. HEALTH AND SAFETY ANNUAL REPORT

The Environmental Health Service Manager and the Corporate Safety Advisor

presented the Health and Safety Annual Report for 2011-12 which provided an overview of the Council's performance and an indicative plan for 2012-13. The report also included a summary of training activity and the total number of accidents reported. Committee members noted that from 2012-13, reporting requirements under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) were changing; it was anticipated that this would lead to a reduction in the number of notifications.

Councillors queried attendance at training events against a target number of attendees. They requested that future reports show the eligible/projected number of staff to be trained against the actual number of staff who receive training.

Discussion ensued in respect of the accidents reported, particularly in respect of violence to staff. This included verbal abuse, harassment and sexual harassment and was covered under the Council's unacceptable behaviour framework. Councillors requested that figures be presented alongside percentages to provide context.

The Committee noted the report.

32. OMBUDSMAN ANNUAL REPORT

The Head of Legal and Democratic Services summarised report number LDS077 which was the Local Government Ombudsman annual report. Committee members noted that the number of complaints had increased, with a growing number of complaints relating to planning and housing issues. 15 complaints were considered by the Ombudsman to be premature and were referred back to the Council; 14 of these were dealt with through the Council's complaints process. There were no findings of injustice from any investigations. It was also noted that when the Ombudsman decided to investigate a complaint, the time it took the Council to respond to initial requests had reduced from 38 days in 2010/11 to 23 days in 2011/12.

The Committee noted the report.

33. PARTNERSHIPS ANNUAL REPORT

The Planning Policy and Partnerships Service Manager presented the Partnerships annual report (report number PLA951). The council was part of four significant partnerships (where a partnership was required by statute, where the council was the accountable body or where the partnership had a budget of more than £100k): Bourne Town Centre Management Partnership (TCMP), Grantham Growth Point, the Local Strategic Partnership and the Community Safety Partnership. Committee members noted that there was no activity in respect of the Bourne TCMP during 2011-12. Summaries of the work of the Council's other strategic partnerships were attached as appendices to report PLA951.

It was noted that the Local Strategic Partnership (LSP) Executive reviewed the partnership and its working arrangements in consultation with members and had consequently been dissolved. The work that was being undertaken by the LSP was subsumed by other bodies. Work in respect of sustainable growth was absorbed by two Grantham Growth Point groups; community cohesion work was subsumed by the Community Safety Partnership and work in relation to healthy living continued as a network group.

Councillors were advised that a toolkit was used to assess partnership arrangements and ensure that there were clear governance arrangements, reporting and accountability, which underpinned all partnerships.

The report was noted.

34. ANY OTHER BUSINESS, WHICH THE CHAIRMAN, BY REASONS OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT.

Committee members were invited to consider any items they would like included in the internal audit plan for 2013-14 and submit them for discussion at the Committee's meeting on 6 December 2012.

A countywide meeting was taking place for all Governance and Audit Committee members on Wednesday 3 October 2012. Councillors were encouraged to attend the session in Lincoln.

35. CLOSE OF BUSINESS

The meeting was closed at 14:48.

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: Property Development Manager

REPORT NO: PD03

DATE: 6 December 2012

| | | |
|--|---|----------------------------------|
| TITLE: | Leases Audit Update | |
| KEY DECISION OR POLICY FRAMEWORK PROPOSAL: | N/A | |
| PORTFOLIO HOLDER: NAME AND DESIGNATION: | Cllr Mike Taylor - Strategic Resources - Well Run Council | |
| CONTACT OFFICER: | Neil Cucksey - Property Development Manager n.cucksey@southkesteven.gov.uk tel: 01476 406224 | |
| INITIAL IMPACT ANALYSIS: Equality and Diversity | Carried out and Referred to in paragraph (7) below | Full impact assessment Required: |
| FREEDOM OF INFORMATION ACT: | This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk | |
| BACKGROUND PAPERS | Governance & Audit Committee Papers 25 September 2012: http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=498&MIId=2840&Ver=4 | |

1. RECOMMENDATIONS

That the Governance and Audit Committee note the progress made in respect of the update provided in the Appendices to this report.

2. PURPOSE OF THE REPORT

Internal auditing is an independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined

approach to evaluate and improve the effectiveness of risk management, control and governance processes.

This report provides an update of progress made against the recommendations and management actions.

3. DETAILS OF REPORT

An audit of Leases was undertaken in June 2012 as part of the approved internal audit periodic plan for 2011/12.

This audit was identified for inclusion in the audit plan for 2012 following dialogue between the Property Development Manager, Strategic Director, (Corporate Focus) and representatives of RSM Tenon.

As the Property Development service was established in January 2012, when the Property Development Manager commenced employment with South Kesteven District Council, management considered it useful to articulate the current reality of processes and procedures to give visibility to issues with these following the split of community assets from operational and commercial assets in January 2012. Prior to January 2012 all property leases were managed under one service area, Asset and Facilities.

The council previously employed an in house commercial surveyor within the asset team. However in December 2011 the post holder resigned and this presented an opportunity to review how this specialist area was resourced. Rather than appoint to the vacant post the required services were tendered with local commercial property specialists to provide a range of services in partnership with the council.

This approach gives the council access to a range of professionally qualified property specialists able to cover all aspects of property management and at the same time resulted in a budget saving.

At the time of this audit the full integration of this approach had not been fully established and so part of the management actions required from the audit findings are being realised by the maturing of this partnership.

An update of progress made against each of the recommendations is attached to this report in the appendix.

4. OTHER OPTIONS CONSIDERED

This is an update report - the recommendations have already been accepted.

5. RESOURCE IMPLICATIONS

Recommendations can be addressed within existing resources as outlined in the appendix.

6. RISK AND MITIGATION

The risks have been assessed as part of the audit and captured by the recommendations.

7. ISSUES ARISING FROM IMPACT ANALYSIS

None arising from this report.

8. CRIME AND DISORDER IMPLICATIONS

None arising from this report.

9. COMMENTS OF FINANCIAL SERVICES

All financial implications arising from the recommendations will be met from existing resources.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

None arising from this report.

11. COMMENTS OF OTHER RELEVANT SERVICES

None arising from this report.

12. APPENDIX: Leases Update

Appendix – Leases Internal Audit Recommendation Update

| Ref | Recommendation | Categorisation | Implementation Date | Update |
|-----|---|----------------|---------------------|--|
| 1 | <p>Procedures should be documented for the management of leases and licences, for properties not managed by Hodgson Elkington, once the process has been agreed.</p> <p>All documented procedures should include the date of review so that the latest version can be identified, when any revision to the procedure takes place.</p> | Medium | March 2013 | <p>Procedures and standard templates are being developed alongside the development of the Flare data base referred to in ref 4 below. This will ensure they are in place for the preparation of new leases and for the renewal of existing leases, serving notices etc. Procedures will be documented in a service manual to enable staff to complete their duties as per the agreed process consistently.</p> |
| 2 | <p>The Scheme of Delegation should be reviewed and updated with appropriate titles in line with the changes in structure since the Scheme of Delegation for the Head of Assets was established in September 2010.</p> <p>The Council need to come to a decision whether the new process for determining market rent of leased properties is acceptable and that this can be approved by the Property Development Manager; or whether continued oversight of rent rates is required by the Section 151 Officer. The Scheme of Delegation should then be updated following this review.</p> | Medium | September 2012 | <p>We have reviewed the Scheme of Delegation. It has been decided for the time being that due to the low volume of transactions that the Section 151 Officer will continue to have oversight of rent rates and lease renewals in general.</p> <p>This action is therefore complete.</p> |
| 3 | <p>Monthly reconciliation of the properties with which lease income is received should be undertaken to the revenues system to identify any properties leased or licenced, for which income is not being received.</p> | Medium | September 2012 | <p>We receive on a monthly report from the revenues Collection Officer. Below is an extract of the covering e-mail issued with the reports.</p> <p>“Please find attached weekly</p> |

| Ref | Recommendation | Categorisation | Implementation Date | Update |
|-----|----------------|----------------|---------------------|---|
| | | | | <p>schedules of outstanding debtors at final notice stage – one for invoices & one for instalment plans. Please could you review the outstanding debts in your service area & please let us know within 7 days whether further recovery action (including cancellation of any instalment plans) should not take place.</p> <p>This information is shared with our managing agents- Hodgson Elkington at our regular management meetings.</p> <p>Further work is being undertaken to ensure we have full visibility of all leases, licences and agreements for which income is due.</p> |

| Ref | Recommendation | Categorisation | Implementation Date | Update |
|-----|---|----------------|---------------------|---|
| 4 | <p>In order to identify all leases and licences held by the Council a review of each of the systems used should be undertaken to identify potential leases and licences (e.g. Asset Management, Legal, Finance, Revenues). These should then be investigated to determine whether they are current leases / licences with the aim of compiling a list of all current leases and licences. Following this review, any discrepancies found in other Council systems should also be resolved to ensure that they remain accurate and up to date.</p> <p>In addition, the Council may wish to work with an outside agency, such as the Land Registry, in an attempt to confirm the Council's current records and identify any discrepancies between the Land Registry and Council's records; however this will incur additional costs to the Council.</p> | High | March 2013 | <p>Work has been undertaken to reconcile a register of all none Housing assets in each of the internal systems (Asset Management, Legal, Finance), to identify all assets owned by the council and determine leases and licences in place.</p> <p>This register is being reviewed during its compilation to determine the current position with any leases/ licences and resolve any discrepancies found to ensure it is accurate and up to date. The register is being populated with details such as lease renewal dates, break clauses and rent reviews to give full visibility of this information to enable future dates to be flagged to avoid them being missed.</p> <p>Work has also been undertaken to evaluate a property data system to allow all data held on individual properties to be linked together to allow ease of retrieval and alerts to be set to give visibility of future dates for events like lease expiry/ renewal. Rather than add to the proliferation of data bases within the council we have evaluated a data system developed within Flare, which is a Civica software product already operated and supported within the council.</p> <p>This work is the foundation upon which to deliver the actions to address the</p> |

| Ref | Recommendation | Categorisation | Implementation Date | Update |
|-----|---|----------------|---------------------|---|
| | | | | <p>key findings of this audit. The intention is to have the Flare data base populated with all leased property details by March 2013 the Flare data base is currently being built to our requirements and will be installed before the end of December 2012.</p> |
| 5 | <p>Hodgson Elkington's tenancy schedule should be reviewed at each management meeting to identify any discrepancies or errors between the records maintained by Hodgson Elkington and those maintained by the Council; these should then be investigated and rectified.</p> | High | On going | <p>This work is ongoing in reconciling the comprehensive data base referred to above. Any discrepancies are being worked through with internal colleagues in finance and legal as well as with our managing agents.</p> |
| 6 | <p>A record of all leases and licences issued by the Council should be established and maintained; this should record the details of each lease / licence and the property to which it relates to; allowing the expiry of leases and licences to be monitored.</p> | High | On going | <p>This recommendation is being covered by the note in ref 4 above.</p> |

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: Head of Community Assets – Paul Stokes

REPORT NO: RIM0299

DATE: 6 December 2012

| | | |
|--|---|----------------------------------|
| TITLE: | Repairs Internal Audit Report Update | |
| KEY DECISION OR POLICY FRAMEWORK PROPOSAL: | N/A | |
| PORTFOLIO HOLDER: NAME AND DESIGNATION: | Cllr T Bryant – Portfolio Holder, Housing Cllr M Taylor – Strategic Resources – Well Run Council | |
| CONTACT OFFICER: | Liz Bishop – Service Manager, Property Services l.bishop@southkesteven.gov.uk Tel: 01476 406416 Paul Stokes – Head of Community Assets Tel: 01476 406410 p.stokes@southkesteven.gov.uk | |
| INITIAL IMPACT ANALYSIS: Equality and Diversity | Carried out and Referred to in paragraph (7) below | Full impact assessment Required: |
| FREEDOM OF INFORMATION ACT: | This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk | |
| BACKGROUND PAPERS | Governance & Audit Committee Papers 25 September 2012: http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?Clid=498&MId=2840&Ver=4 | |

1. RECOMMENDATIONS

That progress on the findings within the report is noted.

2. PURPOSE OF THE REPORT

The purpose of this report is to provide an update of the recent findings of the Internal Audit, which is attached as appendix 1 to this report.

3. DETAILS OF REPORT

The report examined the repairs process to identify whether any improvements could be put in place to increase the robustness of the service. An update is provided on the appendix attached.

4. OTHER OPTIONS CONSIDERED

N/A

5. RESOURCE IMPLICATIONS

All recommended actions have been and will be provided within existing resources.

6. RISK AND MITIGATION

Any potential risks have been recommended and addressed within the audit report.

7. ISSUES ARISING FROM IMPACT ANALYSIS

No impact analysis is required in respect of this report

8. CRIME AND DISORDER IMPLICATIONS

None applicable

9. COMMENTS OF FINANCIAL SERVICES

All financial implications arising from the recommendations will be met from existing resources.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

No legal advice has been sought in relation to this report

11. COMMENTS OF OTHER RELEVANT SERVICES

12. APPENDIX: Repairs Update

Appendix – Repairs Internal Audit Recommendation Update

| Ref | Recommendation | Categorisation | Implementation Date | Update |
|-----|---|----------------|---------------------|--|
| 1 | Ensure that repairs are prioritised/categorised with the evidence to support prioritisation being documented | High | November 2012 | A referencing system for categorisation of jobs has been set up, following the diagnosis of the repair required with the tenant |
| 2 | Record and monitor completion of work identified as a result of risk assessments | High | August 2012 | All repairs relating to Caretaker Assessments are now carried out in a timely manner through a new procedure which has been instigated following a meeting with Housing Management |
| 3 | Correctly code repairs that fall within the 'Right to Repair' scheme on the system and ensure there is documented evidence should a repair fall under the scheme but not be classed as urgent | High | October 2012 | Instructions have been sent to relevant staff to ensure they always issue a Right to Repair code when raising a Right to Repair job |
| 4 | Ensure there is adequate resource to complete appointments within the assigned target completion date and produce a list of repairs which may have a high risk, to assist in scheduling jobs | Medium | April 2013 | We need to maximise the use of our current resources. We are currently implementing mobile working for the operatives which will increase the number of jobs completed by each operative per week and this is anticipated to minimise any resource implications (see item 7) |

| Ref | Recommendation | Categorisation | Implementation Date | Update |
|------------|--|-----------------------|----------------------------|--|
| 5 | Code identified follow on work and schedule work based on urgency of repair | Medium | September 2012 | A clear instructions has been given to the Repairs schedulers that all follow on work which is not related to the original repair should be logged on the system as a new job |
| 6 | Undertake the target number of inspections and quality checks required to assess the quality of work | Medium | September 2012 | Quality checks are being made in accordance with targets for the month |
| 7 | Undertake an analysis comparing full time equivalent resource available within the Repairs department | Medium | October 2012 | This analysis has been carried out; This was based on the current method of providing repairs, however a further review will be undertaken once mobile working has been implemented |
| 8 | Monitor daily work schedules to identify possible opportunities to allocate further work | Medium | October 2012 | Daily work schedules are now monitored on a daily basis |
| 9 | Communicate effectively and respond to tenants, wardens or staff who report repairs as to the status of the repair | Medium | January 2013 | We are currently working on achieving accreditation of the Institute of Housing's Repairs Charter and this will form part of the actions. We are also re-introducing the notification of works slips for external works which will be left at properties after works have been completed |

Our reference 2011-12 AS6.b

27 September 2012

Members
South Kesteven District Council
Council Offices, St Peter's Hill
Grantham
Lincolnshire
NG31 6PZ

Direct line 0844 798 4098
Email t-crawley@audit-
commission.gov.uk

Dear Members

South Kesteven District Council Annual Audit Letter 2011/12

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

Financial statements

On 25 September I presented my Annual Governance Report (AGR) to the Audit Committee outlining the findings of my audit of the Authority's 2011/12 financial statements. I will not replicate those findings in this letter.

Following the Governance and Audit Committee on 25 September 2012 I:

- issued an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources;
- certified completion of the audit.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and Director of Finance. While this has been a challenging year for the Authority I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit Committee for their support and co-operation during the audit.

Yours sincerely

Tony Crawley
District Auditor

Audit Commission, Unit 10, Whitwick Business Park, Stenson Road, Coalville, LE67 4JP
T 0844 798 4150 F 0121 733 7183 www.audit-commission.gov.uk

RSM Tenon

SOUTH KESTEVEN DISTRICT COUNCIL

Internal Audit Progress Report

Governance and Audit Committee Meeting – 6th December 2012

RSM Tenon

Agenda Item 7

CONTENTS

| SECTION | | Page |
|------------|---|------|
| 1 | Introduction | 1 |
| 2 | Final reports issued | 1 |
| 3 | Work in Progress or Planned | 1 |
| 4 | Key Findings From Internal Audit Work | 1 |
| 5 | Liaison with Management | 2 |
| 6 | Changes to our Plan | 2 |
| Appendix A | Operational Plan Performance 2012/13 | 2 |
| Appendix B | Reports Finalised – Summary of Key Findings | 6 |

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Council and senior management of South Kesteven District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2010 RSM Tenon Limited

RSM Tenon Limited is a member of RSM Tenon Group

RSM Tenon Limited is an independent member firm of RSM International an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

RSM Tenon Limited (No 4066924) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB. England

1. INTRODUCTION

- 1.1 The periodic internal audit plan for 2012/13 was approved by the Governance and Audit Committee on the 15th March 2012. This report summarises the outcome of work completed to date against that plan, and Appendix A provides cumulative data in support of internal audit performance.

2. FINAL REPORTS ISSUED

- 2.1 We have finalised six reports relating to the 2012/13 audit plan; these are in the areas of:

- **Cash and Banking;** **Debtors;**
- **Council Tax;** **Housing Benefits;**
- **NNDR;** **Rent Collection and Arrears.**

3. WORK IN PROGRESS OR PLANNED

- 3.1 There are currently two reports out in draft and awaiting management responses, which relate to the Payroll and Land Charges reviews. There are a further 9 reviews planned to take place before the financial year end of 31st March 2013. Details are shown in Appendix A.

4. FINDINGS FROM INTERNAL AUDIT WORK

- 4.1 We have raised 23 recommendations across the 6 reviews that are being presented to this committee; no recommendations have been classified as 'High' Risk; 7 recommendations have been classified as 'Medium' risk and the remaining 16 recommendations have been classified as 'Low' risk. Details of the key findings are shown in Appendix B.

5. LIAISON WITH MANAGEMENT

- 5.1 Meetings are held with the Head of Finance, Finance Support Manager (Finance & Risk) and the Governance & Risk Officer on a regular basis, as well as other senior management to discuss the progress of the internal audit work.

6. CHANGES TO OUR PLAN

- 6.1 Following discussions with management we propose to remove the planned audit on Insurance; our planning discussions have identified that the service is currently going through a review process with the current provider and as such, it is felt more beneficial to the Council to postpone this audit until the review process has been completed. The six days which had been allocated to this review will be moved into the contingency budget; if by the year end these days have not been utilised this will represent a saving for the Council.
- 6.2 In addition we have requested that the Risk Management review be conducted by a Risk Management specialist as this will be of greater value to the Council; however in order to complete this work to a suitable standard we will utilise 2 days out of the remaining contingency budget.

APPENDIX A: OPERATIONAL PLAN PERFORMANCE 2012/13 – CURRENT REPORTS

Detailed below is a summary of the work undertaken in 2012/13 to date, showing the levels of assurance given and the number of recommendations arising. Reports being considered at this Committee are shown in ***bold and italics***. Definitions with regard to the levels of assurance and the classification of recommendations are provided overleaf.

| Auditable Area | Start Date | Debrief date | Draft report issued | Responses received | Final report issued | Governance & Audit Committee | Audit approach | Audit Days | Assurance level given | Number of Recommendations Made | | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------------|--------------------------|-----------------|-----------------------------|--------------------------------|-----------------|-----------------|-----------------|-----------------|--|
| | | | | | | | | | | High | Medium | Low | In Total | Agreed | |
| Current Reports | | | | | | | | | | | | | | | |
| <i>Debtors</i> | <i>13/08/12</i> | <i>16/08/12</i> | <i>29/08/12</i> | <i>29/10/12</i> | <i>30/10/12</i> | <i>Dec 2012</i> | <i>Risk Based</i> | <i>6</i> | <i>GREEN / AMBER</i> | <i>0</i> | <i>2</i> | <i>7</i> | <i>9</i> | <i>9</i> | |
| <i>Rent Collection & Arrears</i> | <i>13/08/12</i> | <i>20/08/12</i> | <i>29/08/12</i> | <i>24/09/12</i> | <i>25/09/12</i> | <i>Dec 2012</i> | <i>Risk Based</i> | <i>7</i> | <i>GREEN</i> | <i>0</i> | <i>0</i> | <i>3</i> | <i>3</i> | <i>3</i> | |
| <i>Council Tax</i> | <i>03/09/12</i> | <i>07/09/12</i> | <i>17/09/12</i> | <i>18/09/12</i> | <i>18/09/12</i> | <i>Dec 2012</i> | <i>Risk Based</i> | <i>5</i> | <i>GREEN</i> | <i>0</i> | <i>1</i> | <i>0</i> | <i>1</i> | <i>1</i> | |
| <i>Housing Benefits</i> | <i>03/09/12</i> | <i>07/09/12</i> | <i>17/09/12</i> | <i>18/09/12</i> | <i>18/09/12</i> | <i>Dec 2012</i> | <i>Risk Based</i> | <i>7</i> | <i>GREEN</i> | <i>0</i> | <i>1</i> | <i>1</i> | <i>2</i> | <i>2</i> | |
| <i>NNDR</i> | <i>03/09/12</i> | <i>17/09/12</i> | <i>19/09/12</i> | <i>15/10/12</i> | <i>16/10/12</i> | <i>Dec 2012</i> | <i>Risk Based</i> | <i>5</i> | <i>GREEN</i> | <i>0</i> | <i>2</i> | <i>2</i> | <i>4</i> | <i>4</i> | |
| <i>Cash & Banking</i> | <i>08/10/12</i> | <i>12/10/12</i> | <i>24/10/12</i> | <i>07/11/12</i> | <i>09/11/12</i> | <i>Dec 2012</i> | <i>Risk Based</i> | <i>6</i> | <i>GREEN</i> | <i>0</i> | <i>1</i> | <i>3</i> | <i>4</i> | <i>4</i> | |
| Leases | 11/06/12 | 14/06/12 | 27/06/12 | 14/08/12 | 23/08/12 | Sept 2012 | Risk Based | 6 | RED | 3 | 3 | 0 | 6 | 6 | |
| Asset Management Plan | 16/07/12 | 20/07/12 | 31/07/12 | 28/08/12 | 29/08/12 | Sept 2012 | Risk Based | 6 | GREEN | 0 | 0 | 2 | 2 | 2 | |
| Corporate Governance | 23/07/12 | 26/07/12 | 30/07/12 | 14/08/12 | 29/08/12 | Sept 2012 | Risk Based | 6 | GREEN | 0 | 1 | 0 | 1 | 1 | |
| Creditors & Procurement | 30/07/12 | 03/08/12 | 08/08/12 | 05/09/12 | 06/09/12 | Sept 2012 | Risk Based | 7 | GREEN / AMBER | 0 | 2 | 3 | 5 | 5 | |
| Follow Up (2) | 14/08/12 | 16/08/12 | 29/08/12 | 07/09/12 | 10/09/12 | Sept 2012 | Follow Up | 3 | GOOD PROGRESS | 0 | 2 | 0 | 2 | 2 | |
| Repairs | 23/07/12 | 01/08/12 | 09/08/12 | 06/09/12 | 11/09/12 | Sept 2012 | Risk Based | 7 | RED | 3 | 6 | 2 | 11 | 11 | |

| Auditable Area | Start Date | Debrief date | Draft report issued | Responses received | Final report issued | Governance & Audit Committee | Audit approach | Audit Days | Assurance level given | Number of Recommendations Made | | | | | |
|---|------------|--------------|---------------------|--------------------|---------------------|------------------------------|----------------|------------|-----------------------|--------------------------------|----------|-----------|-----------|-----------|-----------|
| | | | | | | | | | | High | Medium | Low | In Total | Agreed | |
| Elections | 28/05/12 | 31/05/12 | 11/06/12 | 25/06/12 | 26/06/12 | July 2012 | Risk Based | 6 | GREEN | 0 | 0 | 4 | 4 | 4 | |
| Licensing | 11/06/12 | 15/06/12 | 21/06/12 | 04/07/12 | 06/07/12 | July 2012 | Risk Based | 6 | GREEN | 0 | 1 | 0 | 1 | 1 | |
| Contract Management – Ground & Tree Maintenance | 30/04/12 | 11/05/12 | 21/05/12 | 12/06/12 | 13/06/12 | June 2012 | Risk Based | 7 | RED | 2 | 2 | 6 | 10 | 10 | |
| Follow Up (1) | 08/05/12 | N/A | 15/05/12 | 30/05/12 | 30/05/12 | June 2012 | Follow Up | 4 | GOOD PROGRESS | 0 | 3 | 0 | 3 | 3 | |
| Advisory Reviews | - | - | - | - | - | - | - | 10 | - | 0 | 6 | 17 | 23 | 23 | |
| Management | - | - | - | - | - | - | - | 5 | - | - | - | - | - | - | |
| Sub total | | | | | | | | | 109 | | 8 | 33 | 50 | 91 | 91 |

| Auditable Area | Start Date | Debrief date | Draft report issued | Responses received | Final report issued | Governance & Audit Committee | Audit approach | Audit Days | Assurance level given | Number of Recommendations Made | | | | |
|--|------------|--------------|---------------------|--------------------|---------------------|------------------------------|----------------|------------------|-----------------------|--------------------------------|--------|-----|----------|--------|
| | | | | | | | | | | High | Medium | Low | In Total | Agreed |
| <i>Work in progress or yet to start (including reports still in draft)</i> | | | | | | | | | | | | | | |
| Payroll & Expenses | 05/11/12 | 08/11/12 | 14/11/12 | | | | | (6) | | | | | | |
| Land Charges | 05/11/12 | 12/11/12 | 19/11/12 | | | | | (4) | | | | | | |
| Programme Management | 26/11/12 | | | | | | | (7) | | | | | | |
| Refuse Collection & Bulky Waste | 26/11/12 | | | | | | | (7) | | | | | | |
| Green Waste | 03/12/12 | | | | | | | (5) | | | | | | |
| Follow Up (3) | 07/01/13 | | | | | | | (5) | | | | | | |
| Risk Management | 07/01/13 | | | | | | | (6) | | | | | | |
| Flexible Working Arrangements | 04/02/13 | | | | | | | (6) | | | | | | |
| General Ledger/ Main Accounting System | 04/02/13 | | | | | | | (7) | | | | | | |
| Data Security | TBC | | | | | | | (7) | | | | | | |
| Contingency | - | - | - | - | - | - | - | (11) | - | - | - | - | - | - |
| Management | - | - | - | - | - | - | - | (10) | - | - | - | - | - | - |
| | | | | | | | | Sub total | (81) | | | | | |
| | | | | | | | | Total | 190 | | | | | |

Recommendation Categorisation

Recommendation Categorisation

Our findings and recommendations are categorised as follows:

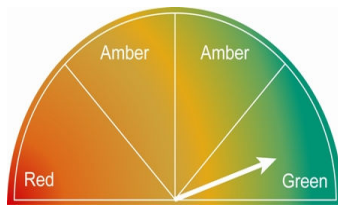
High (H): *action is imperative to ensure that the objectives for the area under review are met.*

Medium (M): *requires action to avoid exposure to significant risks in achieving the objectives for the area under review.*

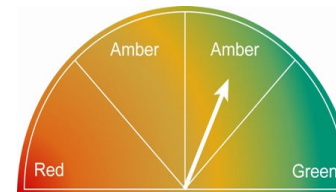
Low (L): *action advised to enhance control or improve operational efficiency.*

ASSURANCE OPINIONS

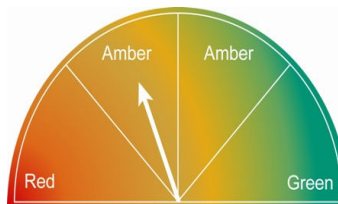
Our opinion will be graphically represented as a speedometer (see below). We have provided guidelines for each segment of the speedometer to provide the Governance & Audit Committee (or equivalent) with some context behind each of the ratings.



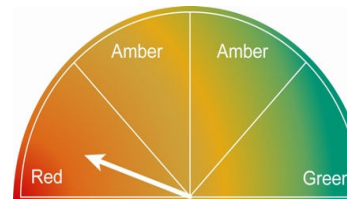
Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.



Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.



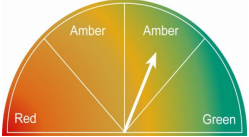
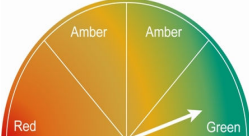
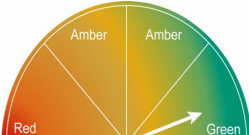
Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.

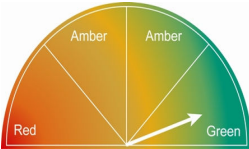
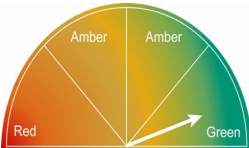
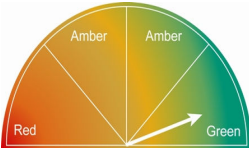


Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.

The Amber assurance level is split into two so that we are able to give you a clear indication of whether we consider the assurance to be “above or below the line”. We hope this will help draw attention to those reports where we are highlighting that although not a negative opinion, the Authority does need to take action to ensure the risk is managed. Similarly the above the line amber opinion reflects that although a positive opinion, there is still room for improvement. During the year our progress reports to Governance & Audit Committee will reflect the opinions given and build up a picture of our findings so that there will be no surprises in our year end annual opinion.

APPENDIX B: REPORTS FINALISED – SUMMARY OF KEY FINDINGS

| Summary of Audit Findings | Assurance Level | No. of Recs. Made and (Accepted) | No. of Recs. Categorised As High Risk | Impl Date for Recs. | Responsible Officer (s) |
|---|---|----------------------------------|---------------------------------------|-----------------------------------|-------------------------------------|
| <p><u>Debtors – (13.12/13):</u></p> <p>An audit of Debtors was undertaken as part of the approved internal audit plan and resulted in two ‘Medium’ risk and seven ‘Low’ risk recommendations being raised.</p> <p>The Medium risk recommendations were in relation to:</p> <ul style="list-style-type: none"> ➤ Putting a procedure in place for the authorisation of credit notes and ensuring that they have been authorised by an appropriate member of staff with sufficient supporting documentation, and ➤ Introducing an independent review of the write offs processed within the sundry debtors system. |  | 9(9) | 0 | <p>Nov 2012</p> <p>March 2013</p> | Revenues & Benefits Service Manager |
| <p><u>Rent Collection & Arrears – (12.12/13):</u></p> <p>An audit of Rent Collection and Arrears was undertaken as part of the approved internal audit plan and resulted in three ‘Low’ risk recommendations being made; both of which were accepted by management.</p> |  | 3(3) | 0 | Sept 2012 | Revenues & Benefits Service Manager |
| <p><u>Council Tax – (14.12/13):</u></p> <p>An audit of Council Tax was undertaken as part of the approved internal audit plan and resulted in one ‘Medium’ risk recommendation.</p> <p>This recommendation was in relation to:</p> <ul style="list-style-type: none"> ➤ Ensuring that all staff with access to the Northgate System have completed an annual declaration of interest form and that there is a robust process for ensuring that staff leaving the employment of the Council have their access rights disabled. |  | 1(1) | 0 | Sept 2012 | Revenues & Benefits Service Manager |

| | | | | | |
|---|--|------|---|-----------------------|-------------------------------------|
| <p><u>Housing Benefits – (15.12/13):</u></p> <p>An audit of the Housing Benefits system was undertaken as part of the approved internal audit plan and resulted in one ‘Medium’ risk recommendation and one ‘Low’ risk recommendations.</p> <p>The Medium risk recommendation made was in relation to:</p> <ul style="list-style-type: none"> ➤ Ensuring that the BACS payment report listings are appropriately signed and authorised. |  | 2(2) | 0 | Sept 2012 | Revenues & Benefits Service Manager |
| <p><u>NNDR – (16.12/13):</u></p> <p>An audit of NNDR was undertaken as part of the approved internal audit plan and resulted in two ‘Medium’ risk recommendations and two ‘Low’ risk recommendations.</p> <p>The Medium risk recommendations made were in relation to:</p> <ul style="list-style-type: none"> ➤ Reconciling the NNDR database to the information held by the Valuation Office Agency and documenting reasons if there is a known variance; and ➤ Ensuring that void inspections are undertaken on a four month rolling basis. |  | 4(4) | 0 | Oct 2012 Sept 2012 | Revenues & Benefits Service Manager |
| <p><u>Cash & Banking – (17.12/13):</u></p> <p>An audit of Cash & banking was undertaken as part of the approved internal audit plan and resulted in one ‘Medium’ risk recommendation and three ‘Low’ risk recommendations.</p> <p>The Medium risk recommendation made was in relation to:</p> <ul style="list-style-type: none"> ➤ Improving the controls in place following the move to Bourne Community Access Point to ensure that the cash handling activities undertaken are in line with those expected by South Kesteven District Council. |  | 4(4) | 0 | April 2013 | Customer Services Manager |

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF 212

DATE: 6th December 2012

| | | |
|---|---|----------------------------------|
| TITLE: | Treasury Management Activity 2012/13 – Mid Year Review | |
| KEY DECISION OR POLICY FRAMEWORK PROPOSAL: | None | |
| PORTFOLIO HOLDER: NAME AND DESIGNATION: | Councillor Mike Taylor Resources and Assets Portfolio Holder | |
| CONTACT OFFICER: | David Scott, Finance Support Manager 01476 406218 Email: d.scott@southkesteven.gov.uk | |
| INITIAL IMPACT ASSESSMENT: | Carried out and Referred to in paragraph (7) below: | Full impact assessment Required: |
| Equality and Diversity | N/A | No |
| FREEDOM OF INFORMATION ACT: | This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk | |
| BACKGROUND PAPERS | HOF189 - Budget Council | |

1. RECOMMENDATION

Members are asked to note the mid-year activity position of 2012-13 (April 2012 to September 2012)

2. PURPOSE OF THE REPORT

Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services. In line with the Code the Council has adopted a treasury management policy statement that requires regular reports on treasury and debt management operations during the financial year.

Additionally, under Part 1 of the Local Government Act 2003, the Council is required to have regard to the Prudential Code for Capital Finance including the setting of Prudential Indicators. Relevant treasury management indicators were incorporated into the Treasury Management Strategy 2012/13 approved by Council on 1st March 2012.

This report is submitted in accordance with these requirements and provides a review of treasury management for the period ended 30 September 2012 and reviews current developments.

The CIPFA Treasury Management Panel promotes the view that Council's monitor performance at least half yearly. In addition to this, a report by the Audit Commission entitled 'Risk and Return' identifies the need for Local Authorities to report regular to members in addition to the annual review.

3. DETAILS OF REPORT

This report sets out the following for the 6 month period from 1 April to 30 September 2012:

- a. A review of debt management operations;
- b. A review of investment operations;
- c. A summary of interest rate movement and investment performance; and
- d. An update on the treasury management Prudential Code Indicators.

DEBT MANAGEMENT OPERATIONS

Long Term Borrowing

No additional long term borrowing was required during Quarter 2. All Council borrowing is with the Public Works Loans Board (PWLB). The average rate of interest paid on the debt portfolio was 2.96%. Appendix A is a schedule of loans outstanding at 30 September 2012. At the point in time when some of the PWLB loans were taken these do appear high in the context of today's interest rates. The overall average is greatly reduced following the HRA self financing arrangements which was taken at a much lower rate. Regular reviews are undertaken to review redemption costs of natural maturity against new borrowing to settle the outstanding debt early. Currently, it is not cost effective to settle early but the position continues to be reviewed in conjunction with our Treasury Management advisors. As part of borrowing requirements around the HRA self financing proposals the Council has created two separate debt portfolios which apportion the existing debt above between the General Fund and HRA.

Short-Term/Temporary Borrowing

This can be defined as borrowing which is due to be repaid within 364 days. No loans were repaid during the reporting period.

INVESTMENT OPERATIONS

The average size of the investment portfolio for the 6 month period was £42.8 million compared to an average portfolio size of £39.6 million during the same period in 2011/12. These cash balances are used for investment, which include balance sheet reserves and provisions, unapplied capital receipts and grants and also cash arising from the timing of large receipts and payments.

Investment Activity in the period ended 30 September 2012

The Council uses a number of methods to invest its reserves which include direct deposit, money market funds and certificates of deposit held with King and Shaxson's custodian service. A schedule of investments at 30 September 2012 can be found at Appendix B.

As at 30 September 2012 the Council held short term investments of £37.7 million, and £3 million long term investment. The Treasury Management Strategy stipulates that the Council should hold not more than 25% of investments as long term and this was adhered during the first half of 2012/13.

Short Term Fixed Deposits – In the period ended 30 September 2012 short term fixed deposits were made on 8 occasions for £15 million. £40.7 million of deposits were being lent out as at 30 September 2012.

Service Investments – In July 2012 a fixed rate deposit of £1 million was placed with Lloyds TSB for a period of 5 years at 3.79% for the Local Authority Mortgage scheme (LAMS). As at 30th September 2012, 2 loans have been completed with an indemnity amount of £37,200 and a further 4 loans are in progress.

Economy Background

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

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

In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably (CPI @ 2.6% in July), UK GDP fell by 0.5% in the quarter to 30 June, the third quarterly fall in succession. It is also the slowest recovery from a recession of any of the five UK recessions since 1930 and total GDP is still 4.5% below its peak in 2008.

The Monetary Policy Committee has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July.

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

Expected future activity

It is expected that low growth in the UK will continue, with Bank Rate unlikely to rise in the next 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed. The Bank of England has also cut their growth rate predictions from 2% to 1% for next year and expects inflation to remain higher for longer.

TREASURY MANAGEMENT PRUDENTIAL CODE INDICATORS

Prudential Code indicators specific to treasury management are designed to ensure that treasury management is carried out in accordance with professional practice. Indicators for 2012/13, 2013/14 and 2014/15 were approved by Council in March 2012 as part of the Treasury Management Strategy 2012/13.

The 2012/13 indicators and actual figures for the 6 months to 30 September 2012 are set out at Appendix C. All investment activity has been maintained within the indicator limits.

4. OTHER OPTIONS CONSIDERED

None

5. RESOURCE IMPLICATIONS

This report has no direct impact on the Council's resources, including finance/ budget, people, land/property etc.

6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)

There are no high risks associated with this report.

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENTS OF FINANCIAL SERVICES

The financial implications are laid out in the main body of the report. The detail presented is in line with best practice and current guidance.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

This report provides details of the Council's performance in respect of treasury management against the policy set out as part of the Budget and Policy Framework. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Treasury Management strategy.

11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER

None

12. APPENDICES:

- A – Debt Maturity Analysis
- B – Investment Maturity Analysis
- C – Treasury Management Prudential Indicators

APPENDIX A

Debt Maturity Analysis

Public Works Loan Board

| Maturing within | At 30 Sept 2012 £ | Interest rate % | Maturity Date |
|-------------------------|------------------------------|----------------------------|----------------------|
| Under 12 months | 500,000.00 | 10.375 | 09-May-13 |
| 12 months to 2 years | 500,000.00 | 10.500 | 09-Nov-13 |
| 2 to 5 years | 500,000.00 | 10.875 | 09-May-15 |
| | 500,000.00 | 9.000 | 09-May-17 |
| 5 to 10 years | 500,000.00 | 9.125 | 09-Nov-17 |
| | 25,000,000.00 | 1.990 | 27-Mar-20 |
| Over 10 years | 95,041,133.33 | 3.030 | 28-Mar-42 |
| <hr/> | | | |
| Total | 122,541,133.33 | 2.960 | (average rate) |

APPENDIX B

Investment Maturity Analysis

Schedule of Managed Cash Funds

| | As at 30 Sept 2012 | Average interest rate |
|------------------------------|---------------------------|------------------------------|
| | £ | % |
| <u>Short term investment</u> | | |
| Natwest SIBA | nil | 0.800 |
| Natwest 30 Day Notice | 2,000,000.00 | 1.000 |
| RBS Global Treasury Fund | 595,000.00 | variable |
| Federated Prime Rate MMF | 4,300,000.00 | variable |
| Insight £ LQF | 2,000,000.00 | variable |
| Ignis Liquidity Funds | 4,500,000.00 | variable |
| BNP Paribas MMF | 4,300,000.00 | variable |
| Certificates Of Deposit | 4,000,000.00 | 1.300 |
| Short term Investment | 16,000,000.00 | 2.969 |
| <u>Long term investment</u> | | |
| Lloyds TSB | 3,000,000.00 | 3.017 |
| <hr/> | | |
| Total | 40,695,000.00 | 1.80 |
| <u>Service Investment</u> | | |
| Lloyds TSB - LAMS | 1,000,000.00 | 3.790 |

APPENDIX C

TREASURY MANAGEMENT PRUDENTIAL CODE INDICATORS

Treasury Management Prudential Indicators and Limits on Activity for South Kesteven District Council.

Treasury Management Indicators – Comparison for 2012/13 estimate to actual position for the 6months to 30 September 2012.

Maturity Structure of borrowing – upper and lower limits

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate

| | Upper Limit % | Actual Limit % |
|--------------------------------|------------------|-------------------|
| Under 12 months | 40 | 0.4 |
| 12 months and within 24 months | 40 | 0.4 |
| 24 months and within 5 years | 100 | 0.8 |
| 5 years and within 10 years | 100 | 20.8 |
| 10 years and above | 100 | 77.6 |

Maturity structure 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 365 days. These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.

External debt indicators

Authorised limit for external debt

| | 2012-13 £'000 | Actual To date £'000 |
|-----------------------------|------------------|-------------------------|
| Borrowing | 148,000 | 122,541 |
| Other long term liabilities | 0 | 0 |
| Total | 148,000 | 122,541 |

The authorised limit – this represents the limit beyond which borrowing is prohibited, and needs to be set and revised by members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Operational boundary for external debt

| | 2012-13 £'000 | Actual To date £'000 |
|-----------------------------|------------------|-------------------------|
| Borrowing | 123,685 * | 122,541 |
| Other long term liabilities | 0 | 0 |
| Total | 123,685 | 122,541 |

* Average of 2011-12 + 2012-13

The operational boundary – this indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF214

DATE: 6th December 2012

| | | |
|---|---|----------------------------------|
| TITLE: | Revision of the Treasury Management Strategy 2012/13 | |
| KEY DECISION OR POLICY FRAMEWORK PROPOSAL: | None | |
| PORTFOLIO HOLDER: NAME AND DESIGNATION: | Cllr Mike Taylor Assets and Resources Portfolio Holder | |
| CONTACT OFFICER: | Richard Wyles, Head of Finance r.wyles@southkesteven.gov.uk 01476406210 | |
| INITIAL IMPACT ASSESSMENT: | Carried out and Referred to in paragraph (7) below: | Full impact assessment Required: |
| Equality and Diversity | N/A | No |
| FREEDOM OF INFORMATION ACT: | This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk | |
| BACKGROUND PAPERS | HOF189 - Budget Council | |

1. RECOMMENDATION

Governance and Audit committee is asked to approve the amendments to the 2012/13 Treasury Management Strategy as identified in the report.

2. PURPOSE OF THE REPORT

Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services. In line with the Code the Council has adopted a treasury management policy statement that requires regular reports on treasury and debt management operations during the financial year.

Additionally, under Part 1 of the Local Government Act 2003, the Council is required to have regard to the Prudential Code for Capital Finance including the setting of Prudential Indicators. Relevant treasury management indicators were incorporated

into the Treasury Management Strategy 2012/13 approved by Council on 1st March 2012

One of the key sections within the Treasury Management Strategy is the Annual Investment strategy which we have updated following work with the Councils Treasury Management advisors. We are seeking approval from the committee incorporated the changes with the strategy for 2012/13.

3. DETAILS OF REPORT

Section 3 on the Treasury Management Strategy report focuses on the Annual Investment Strategy which has been updated in conjunction with advice from the Councils Treasury Management advisors on the approach to managing the Councils investments. Subsequently paragraphs 62-72 and annex 3 (where relevant) have been updated to take into account more information sources to greater assist in selecting counterparties to invest with based on a creditworthiness methodology.

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"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Councils Treasury Advisor ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk whilst providing security of investment and minimisation of risk.

In addition to this paragraph 44-46 on Prospective Interest Rates along with Annex 1 and 2 on economic background has also been updated to reflect the latest forecasts.

If approved, the changes outlined above will also be incorporated into the Treasury Management Strategy for 2013/14 which will be presented to Council on the 3rd March 2013 as part of the budget framework proposals.

4. OTHER OPTIONS CONSIDERED

None

5. RESOURCE IMPLICATIONS

None

6. RISK AND MITIGATION (INCLUDING HEALTH & SAFETY AND DATA QUALITY)

There are no specific high risks associated with this report.

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENTS OF FINANCIAL SERVICES

The detail presented within this report is in line with best practice and takes into account guidance from the Councils Treasury Management Advisors.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

The Council must have a Treasury Management Strategy under the Local Government Act 2003. This needs to be reviewed as required and must be reviewed, at least, annually to ensure it is fit for purpose. The Governance and Audit Committee is authorised by Council to carry out such reviews and make amendments to the strategy as detailed at page 54.1 of the Constitution

11. APPENDICES:

Appendix A – Updated Treasury Management Strategy Report 2012-13

Treasury Management Strategy Report 2012/13

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 as required by the Local Government Act 2003:

- The reporting of the prudential indicators setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities. The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Code of Practice (section 1);
- The Council's Minimum Revenue Provision (MRP) Policy, 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 (section 1);
- 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. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown in section 2;
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss (in accordance with the CLG (Communities for Local Government) investment guidance) (section 3);

Revised editions of the CLG Investment Guidance (March 2010) and the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2011. The revised guidance arising from these have been incorporated within this report.

The main changes initiated in the revisions above increase the Members' responsibility in this area. This requires greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information. The Council has already incorporated these changes within its constitution by delegating responsibility for monitoring and revisions to the Treasury Management Strategy to Governance and Audit Committee. In addition to this the committee has undertaken specific Treasury Management training in June 2011. A mid-year report on performance in conjunction with an annual report is presented to the Governance and Audit Committee.

SECTION 1 - THE PRUDENTIAL INDICATORS 2011/12 to 2014/15

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. In addition to this the Council also adopts CIPFA's Treasury Management in the Public Services: code of practice and cross-sectoral guidance notes. This report revises the indicators for 2011/12 and 2012/13, and introduces new indicators for 2013/14 and 2014/15. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems.
2. Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy for 2012/13 is included in Section 2 to complement the indicators, and this report includes the prudential indicators relating to the treasury activity.
3. A number of Prudential Indicators covering treasury management have been moved to the Treasury Management Code of Practice. These Treasury Management indicators are contained within this report.
4. A key issue facing the Council is the impact of the planned HRA reform which essentially brings to an end the housing subsidy system and will see the HRA become a standalone business. The Council currently pays into the HRA subsidy system and in order to stop future payments from the 1 April 2012 the Council is required to pay the CLG £122m. The payment is effectively HRA debt, and so the prudential indicators have been adjusted to reflect this change (as approved by Council on 8th December 2011). The actual payment will be made on the 28 March 2012 and the change is expected to be beneficial to the Council.

The Capital Expenditure Plans

5. 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 and rents);
 - Practicality (e.g. the achievability of the forward plan).
6. The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.

7. 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. Each year an annual revenue charge (Minimum Revenue Provision) to reduce the borrowing need.
8. 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 of 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 impact of the recession on the property market.
9. The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

| £m | 2011/12 Revised £ | 2012/13 Estimated £ | 2013/14 Estimated £ | 2014/15 Estimated £ |
|---------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| Capital Expenditure | | | | |
| Non-HRA | £2.337m | £6.477m | £3.011m | £2.114m |
| HRA | £5.410m | £4.411m | £3.809m | £4.707m |
| Financed by: | | | | |
| Supported Borrowing | £0.000m | £0.000m | £0.000m | £0.000m |
| Unsupported Borrowing | £0.000m | £0.000m | £0.000m | £0.000m |
| Capital receipts reserve | £0.000m | £4.752m | £2.232m | £1.335m |
| Capital grants | £0.569m | £0.654m | £0.254m | £0.254m |
| Capital reserves | £6.653m | £4.798m | £3.809m | £4.707m |
| Revenue | £0.525m | £0.684m | £0.525m | £0.525m |
| Net financing need for the year | 0 | 0 | 0 | 0 |

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

10. 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 Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.
11. Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR

12. The Council is asked to approve the CFR projections below:

| £m | 2011/12 Revised £ | 2012/13 Estimated £ | 2013/14 Estimated £ | 2014/15 Estimated £ |
|--------------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| Capital Financing Requirement | | | | |
| CFR – Non Housing | 4.663m | 4.476m | 4.297m | 4.125m |
| CFR - Housing | 2.159m | 124.480m | 124.480m | 124.480m |
| HRA Settlement | 122.321m | 0.000m | 0.000m | 0.000m |
| Total CFR | 129.143m | 128.956m | 128.777m | 128.605m |
| Movement in CFR | 122.127m | (0.187m) | (0.179m) | (0.172m) |

| £m | 2011/12 Revised £ | 2012/13 Estimated £ | 2013/14 Estimated £ | 2014/15 Estimated £ |
|--|-------------------------|---------------------------|---------------------------|---------------------------|
| Movement in CFR represented by | | | | |
| Net Financing need for the year (above) | 0.000m | 0.000m | 0.000m | 0.000m |
| HRA Settlement | 122.321m | 0.000m | 0.000m | 0.000m |
| Less MRP/VRP and other financing movements | (0.194m) | (0.187m) | (0.179m) | (0.172m) |
| Movement in CFR | 122.127m | (0.187m) | (0.179m) | (0.172m) |

13. 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). The MRP is the reason for the negative year on year movements in the CFR forecasts shown above.

14. CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

15. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outline in former CLG Regulations.

16. From 1 April 2008 for all new unsupported borrowing the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Directive).

17. For authorities who participate in LAMS (Local Authority Mortgage Scheme) using the cash backed option (which the Council is currently considering), the mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The deposit is due to be returned in full at maturity, with interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (5 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.
18. No revenue charge is currently required for the HRA. However under HRA reform the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, regulations will allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years.
19. Repayments included in annual PFI or finance leases are applied as MRP

The Use of the Council’s resources and the Investment Position

20. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

| Year End Resources £m | 2011/12 Revised £ | 2012/13 Estimated £ | 2013/14 Estimated £ | 2014/15 Estimated £ |
|-----------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| Fund balances | 11.398m | 12.084m | 14.219m | 16.976m |
| Capital receipts | 8.280m | 4.668m | 4.663m | 4.555m |
| HRA reserve | 8.482m | 8.554m | 10.009m | 13.086m |
| Major Repairs Reserve | 3.611m | 4.400m | 5.791m | 6.284m |
| Total Core Funds | 31.771m | 29.706m | 34.652m | 40.901m |
| Working Capital* | (2.370m) | (2.370m) | (2.370m) | (2.370m) |
| Expected Investments | 29.401m | 27.336m | 32.282m | 38.531m |

* Working capital balances shown are estimated year end; these may be higher mid year

Affordability Prudential Indicators

21. 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 overall Council's finances. The Council is asked to approve the following indicators:

22. **Actual and 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.

| % | 2011/12 Revised | 2012/13 Estimated | 2013/14 Estimated | 2014/15 Estimated |
|---------|-----------------|-------------------|-------------------|-------------------|
| Non-HRA | (0.51%) | (1.04%) | (1.21%) | (3.24%) |
| HRA | (0.60%) | 20.95% | 19.87% | 24.24% |

23. The estimates of financing costs include current commitments and the proposals in this budget report.

24. **Estimates of the 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 recommended in this budget report 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.

25. **Incremental impact of capital investment decisions on the Band D Council Tax**

| £ | Original 2011/12 | Forward Projection 2012/13 | Forward Projection 2013/14 | Forward Projection 2014/15 |
|---|------------------|----------------------------|----------------------------|----------------------------|
| Variance change in original to revised spending programme | -1.44 | 1.58 | 0.76 | 0.51 |

26. **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on housing stock.

27. Incremental impact of capital investment decisions Housing Rent levels

| £ | Original 2011/12 | Forward Projection 2012/13 | Forward Projection 2013/14 | Forward Projection 2014/15 |
|---|---------------------|----------------------------------|----------------------------------|----------------------------------|
| Variance change in original to revised spending programme | -173.38 | -7.87 | -113.65 | -116.67 |

28. This indicator shows the revenue impact on any newly approved schemes if there was no rent restructuring in place. However, there is no actual impact on rent levels through any decisions on capital investments due the operation of rent restructuring currently.

SECTION 2 - TREASURY MANAGEMENT STRATEGY 2012/13 to 2014/15

29. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Section 1 consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets balanced budget requirement under the Local Government Finance Act 1992.
30. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2011). This Council adopted the Code of Practice on Treasury Management on 23 June 2004, and will adopt the revised Code.
31. As a result of adopting the Code the Council also adopted a Treasury Management Policy Statement which is also a requirement of one of the prudential indicators and is outlined below:
- The organisation defines its treasury management activities as: the management of the organisations investments and cash flows, its banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
 - The organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage risks.
 - The organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principle of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, with the context of effective risk management.
32. The Constitution 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 reports are produced after the year-end to report on actual activity for the year as was in year reporting of at least half-yearly.

33. This strategy covers:

1. The Council's debt and investment projections;
2. The Council's estimates and limits on future debt levels;
3. The expected movement in interest rates;
4. The Council's borrowing and investment strategies;
5. Treasury performance indicators; and
6. Specific limits on treasury activities.

Debt and Investment Projections 2012/13 – 2014/15

34. The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. The expected maximum debt position during each year represents the Operational Boundary prudential indicator, and so may be different from the year end position.
35. The borrowing position is expected to change significantly in 2012 as, the Council will be required to make a one off payment to the CLG to remove the HRA from the current housing subsidy system. The payment is expected to be £122m. This one off payment is compensation, ensuring the HRA will no longer make future annual payments to the CLG. Therefore, the relevant prudential indicators have been updated to reflect this.
36. The Councils revised treasury portfolio position at 31 March 2012, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting any over or under borrowing.

| £m | 2011/12 Revised £ | 2012/13 Estimated £ | 2013/14 Estimated £ | 2014/15 Estimated £ |
|--------------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| External Debt | | | | |
| Existing Debt at 1 April | (2.591m) | (124.886) | (122.484m) | (118.999m) |
| Expected change in debt | 0.026m | 0.026m | 1.026m | 0.013m |
| HRA Settlement | (122.321m) | 2.376m | 2.459m | 2.545m |
| Debt at 31 March | (124.886m) | (122.484m) | (118.999m) | (116.441m) |
| CFR | 129.143m | 128.956m | 128.777m | 128.605m |
| Under / (over) borrowing | 4.257m | 6.472m | 9.778m | 12.164m |
| | | | | |
| Total Investments at 31 March | 31.771m | 29.706m | 34.652m | 40.901m |
| Investment change | (1.850m) | (2.065m) | 4.946m | 6.249m |
| | | | | |
| Net Debt | (95.485m) | (95.148m) | (86.717m) | (77.910m) |

37. As part of the HRA reform payment to CLG the operational boundary has increased by £130m to £133m. This limit has been set to ensure sufficient

headroom is in place to allow the repayment as part of the Councils prudential indicators.

Limits to Borrowing Activity

- 38. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits.
- 39. The Head of Finance reports that the Council 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.
- 40. **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

| Operational Boundary £m | 2011/12 Revised £ | 2012/13 Estimated £ | 2013/14 Estimated £ | 2014/15 Estimated £ |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|
| Debt | 2.565m | 2.539m | 1.513m | 1.500m |
| + HRA Reform | 122.321m | 119.945m | 117.486m | 114.941m |
| Other long term liabilities | 0.000m | 0.000m | 0.000m | 0.000m |
| Total | 124.886m | 122.484m | 118.999m | 116.441m |

- 41. **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.
- 42. 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.
- 43. The Council is asked to approve the following Authorised Limit taking into account the expected self-financing payment to CLG as part of the HRA reform:

| Authorised limit £m | 2011/12 Revised £ | 2012/13 Estimated £ | 2013/14 Estimated £ | 2014/15 Estimated £ |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|
| Debt | 18.000m | 18.000m | 18.000m | 18.000m |
| + HRA Reform | 130.000m | 130.000m | 130.000m | 130.000m |
| Other long term liabilities | - | - | - | - |
| Total | 148.000m | 148.000m | 148.000m | 148.000m |

Prospects for Interest Rates

44. 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. Annex 1 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view

| Annual Average % | Bank Rate | PWLB Borrowing Rates (including certainty rate adjustment) | | |
|------------------|-----------|---|---------|---------|
| | | 5 year | 25 year | 50 year |
| Dec 2012 | 0.50 | 1.50 | 3.70 | 3.90 |
| March 2013 | 0.50 | 1.50 | 3.70 | 3.90 |
| June 2013 | 0.50 | 1.50 | 3.70 | 3.90 |
| Sept 2013 | 0.50 | 1.60 | 3.80 | 4.00 |
| Dec 2013 | 0.50 | 1.70 | 3.80 | 4.00 |
| March 2014 | 0.50 | 1.80 | 3.90 | 4.10 |
| June 2014 | 0.50 | 1.90 | 4.00 | 4.20 |
| Sept 2014 | 0.50 | 2.00 | 4.10 | 4.30 |
| Dec 2014 | 0.75 | 2.10 | 4.20 | 4.40 |
| March 2015 | 1.00 | 2.30 | 4.30 | 4.50 |

45. The UK continues its worst and slowest recovery from recession in recent history. Growth prospects are weak, although the economy did come out of recession in the third quarter of 2012. Consumer spending, the driving force of recovery, is likely to remain under pressure due to the repayment of personal debt, general malaise about the economy and employment fears.

46. The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but is unlikely to address these before the outcome of the Presidential elections in November 2012. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth from the original expectations and is likely to see the UK deficit reduction plans slip.

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

- The Eurozone sovereign debt difficulties provide a clear indication of high 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 2013/14 and beyond;

- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

A more detailed economic outlook for both the Global and UK economy is included in Annex 2.

Borrowing Strategy 2012/13 – 2014/15

48. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing excluding the HRA reform settlement
49. Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
50. The requirement for the HRA reform settlement to be made to the CLG on 28 March 2012 will require a separate consideration of a borrowing strategy. The Council will need to have the cash settlement amount of £122m available by the 28th March 2012, so separate borrowing solely for this purpose is anticipated. The PWLB are providing loans at interest rates 0.85% lower than the usual PWLB interest rates solely for the settlement requirements. This provides a compelling reason to utilise this borrowing availability. The exact structure of debt to be drawn is currently being considered by officers to ensure it meets the requirements of the HRA business plan and the overall requirements of the Council.
51. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.
52. The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

Treasury Management Limits on Activity

53. There are three debt related treasury activity limits. 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.

54. The Council is asked to approve the limits:

| £m | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|--|-----------------|-----------------|-----------------|-----------------|
| Interest rate Exposures | | | | |
| | Upper | Upper | Upper | Upper |
| Limits on fixed interest rates based on net debt | 133.000m | 133.000m | 133.000m | 133.000m |
| Limits on variable interest rates based on net debt | 40.000m | 40.000m | 40.000m | 40.000m |
| Maturity Structure of fixed interest rate borrowing 2012/13 | | | | |
| | Lower | Upper | Upper | Upper |
| Under 12 months | 0% | 40% | 0% | 0% |
| 12 months to 2 years | 0% | 40% | 40% | 40% |
| 2 years to 5 years | 0% | 100% | 100% | 100% |
| 5 years to 10 years | 0% | 100% | 100% | 100% |
| 10 years and above | 0% | 100% | 100% | 100% |

Policy on Borrowing in Advance of need

55. The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
56. The Head of Finance 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 Head of Finance 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.
57. It would not look to borrow more than 24 months in advance of need.
58. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

59. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
60. The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
 - helping to fulfil the treasury strategy;
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
61. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

SECTION 3 - ANNUAL INVESTMENT STRATEGY 2012/13 to 2014/15

Investment Policy and Counterparty Selection Criteria

62. 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"). The Council's investment priorities will be security first, liquidity second and then return.
63. In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
64. Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Sector in producing its colour codings which show the varying degrees of suggested creditworthiness.
65. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
66. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.
67. Investment instruments identified for use in the financial year are listed in appendix 3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

Creditworthiness policy

This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and

Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

68. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands (please amend as appropriate):

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No colour not to be used

69. The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

70. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

71. All credit ratings are monitored daily and the Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

72. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

73. The Local Authority Mortgage Scheme (LAMS) – The Council is currently participating in the cash backed mortgage scheme which requires the Council to place a matching five year deposit to the life of the indemnity. This investment is an integral part of the policy initiative and is outside the criteria above.

Investment Strategy

74. **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

75. **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before strating to rise from quarter 4 of 2014. Bank Rate forecasts for financial year ends (March) are:

- 2012/13 0.50%
- 2013/14 0.50%
- 2014/15 1.00%
- 2015/16 1.50%

76. There are downside risks to these forecasts (i.e. 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 sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England’s 2% target rate.

77. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

- 2012/13 0.50%
- 2013/14 0.50%
- 2014/15 0.70%
- 2015/16 1.50%

78. **Invesment treasury indicator and limit** - 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.

79. The Council is asked to approve the treasury indicator and limit: -

| Maximum principal sums invested > 364 days | | | |
|--|----------------|----------------|-----------------|
| £m | 2012/13 | 2013/14 | 2014/15 |
| Principal sums invested > 364 days | £8.000m | £9.000m | £10.000m |

80. **Risk Benchmarking** – A development in the revised Codes and the CLG Investment Guidance is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely 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.
81. These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.
82. **Security** - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:
- 0.1% historic risk of default when compared to the whole portfolio.
83. **Liquidity** – In respect of this area the Council seeks to maintain:
- Bank overdraft - £0.25m
 - Liquid short term deposits of at least £5m available with a week's notice.
 - Weighted Average Life benchmark is expected to not exceed a maximum of 1 year.
84. **Yield - Local measures of yield benchmarks are :**
- Investments – Internal returns above the 7 day LIBID rate
 - Investments – External fund managers - returns 10% above 7 day compounded LIBID.
85. **And in addition that the security benchmark for each individual year is:**

| | 1 year | 2 years | 3 years | 4 years | 5 years |
|----------------|--------------|--------------|--------------|--------------|--------------|
| Maximum | 0.08% | 0.22% | 0.37% | 0.52% | 0.70% |

Note: This benchmark is an average risk of default measure (potential loss on investments), and would not constitute an actual expectation of loss against a particular investment.

Performance Indicators

86. 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. Examples of performance indicators often used for the treasury function are:
- Debt – Borrowing - Average rate of borrowing for the year compared to average available
 - Debt – Average rate movement year on year
 - Investments – Internal returns above the 7 day LIBID (London Interbank Bid Rate)
 - Investments – External fund managers - returns 110% above 7 day compounded LIBID.

The results of these indicators will be reported in the Treasury Annual Report.

Policy on Use of External Service Providers

87. The Council uses Sector as its external treasury management advisors.
88. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
89. 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 subjected to regular review.

Member and Officer Training

90. 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. This Council has addressed this important issue by:
- Carrying out a programme of specific Treasury Management training with the members of the Governance and Audit Committee
 - Improved Governance arrangements through annual report and midyear strategy revisions had aided the development and knowledge of committee members.
 - Ensuring staff involved in the Treasury Management function are suitably qualified and have access to regular information updates and developments within the treasury arena.

Annex 1 - Interest Rate Forecast 2012/2015

| Bank Rate | | | | | | | | | | | |
|-----------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | NOW | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
| Sector's View | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% |
| UBS | 0.50% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | - | - | - | - | - |
| Capital Economics | 0.50% | 0.50% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | - |
| 5yr PWLB Rate | | | | | | | | | | | |
| | NOW | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
| Sector's View | 1.53% | 1.50% | 1.50% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.30% |
| UBS | 1.53% | - | - | - | - | - | - | - | - | - | - |
| Capital Economics | 1.53% | 1.20% | 1.20% | 1.20% | 1.20% | 1.20% | 1.20% | 1.30% | 1.40% | 1.50% | - |
| 10yr PWLB Rate | | | | | | | | | | | |
| | NOW | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
| Sector's View | 2.53% | 2.50% | 2.50% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.20% | 3.30% |
| UBS | 2.53% | 2.80% | 3.00% | 3.10% | 3.20% | 3.40% | - | - | - | - | - |
| Capital Economics | 2.53% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | - |
| 25yr PWLB Rate | | | | | | | | | | | |
| | NOW | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
| Sector's View | 3.82% | 3.70% | 3.70% | 3.70% | 3.80% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% | 4.30% |
| UBS | 3.82% | 4.00% | 4.20% | 4.30% | 4.40% | 4.50% | - | - | - | - | - |
| Capital Economics | 3.82% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | - |
| 50yr PWLB Rate | | | | | | | | | | | |
| | NOW | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
| Sector's View | 3.97% | 3.90% | 3.90% | 3.90% | 4.00% | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% |
| UBS | 3.97% | 4.00% | 4.20% | 4.30% | 4.40% | 4.50% | - | - | - | - | - |
| Capital Economics | 3.97% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | - |

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Annex 2 – Economic Background 2011/2015

Global economy

The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers any optimism for the outlooks for 2011 and 2012, or possibly even into 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.

At the centre of much of the uncertainty is the ongoing Eurozone sovereign debt crisis which has intensified, rather than dissipated throughout 2011. The main problem has been Greece, where, even with an Eurozone/IMF/ECB bailout package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems. These look certain to result in a default of some kind but it currently remains unresolved if this will be either “orderly” or “disorderly”, and/or also include exit from the Euro bloc.

As if that were not enough there is growing concern about the situation in Italy and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world but its prospects are limited given the poor rate of economic growth over the last decade and the lack of political will to address the need for fundamental reforms in the economy. The Eurozone now has a well established track record of always doing too little too late to deal with this crisis; this augurs poorly for future prospects, especially given the rising level of electoral opposition in northern EU countries to bailing out profligate southern countries.

The US economy offers little to lift spirits. With the next Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started “Operation Twist” in an effort to re-ignite the economy in which growth is stalling. High levels of consumer indebtedness, unemployment and a moribund housing market are weighing heavily on consumer confidence and so on the ability to generate sustained economic growth.

Hopes for broad based recovery have, therefore, focussed on the emerging markets but these areas have been struggling with inflationary pressures in their previously fast growth economies. China, though, has maintained its growth pattern, despite tightening monetary policy to suppress inflationary pressures, but some forward looking indicators are causing concern that there may not be a soft landing ahead, which would then be a further dampener on world economic growth.

UK economy

The Government’s austerity measures, aimed at getting the public sector deficit into order over the next four years, have yet to fully impact on the economy. However, coming at a time when economic growth has virtually flatlined and concerns at the risk of a technical recession (two quarters of negative growth) in 2012, it looks likely that the private sector will not make up for the negative impact of these austerity measures given the lack of an export led recovery due to the downturn in our major trading partner – the EU. The housing market, a gauge of consumer confidence, remains weak and the outlook is for house prices to be little changed for a prolonged period.

Economic Growth. GDP growth has, basically, flatlined since the election of 2010 and, worryingly, the economic forecasts for 2011 and 2012 have been revised lower on a near quarterly basis as the UK recovery has, effectively, stalled. With fears of a potential return to recession the Bank of England embarked on a second round of Quantitative Easing to stimulate economic activity.

Unemployment. With the impact of the Government's austerity strategy impacting the trend for 2011 of steadily increasing unemployment, there are limited prospects for any improvement in 2012 given the deterioration of growth prospects.

Inflation and Bank Rate. For the last two years, the MPC's contention has been that high inflation was the outcome of temporary external factors and other one offs (e.g. changes in VAT); that view remains in place with CPI inflation standing at 5.2% at the start of quarter 4 2011. They remain of the view that the rate will fall back to, or below, the 2% target level within the two year horizon.

AAA rating. The ratings agencies have recently reaffirmed the UK's AAA sovereign rating and have expressed satisfaction with Government policy at deficit reduction. They have, though, warned that this could be reviewed if the policy were to change, or was seen to be failing to achieve its desired outcome. This credit position has ensured that the UK government is able to fund itself at historically low levels and with the safe haven status from Eurozone debt also drawing in external investment the pressure on rates has been down, and looks set to remain so for some time.

Sector's forward view

Economic forecasting remains troublesome with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that increasingly seem likely to be undershot;
- a continuation of high levels of inflation ;
- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;
- stimulus packages failing to stimulate growth;
- elections due in the US, Germany and France in 2012 or 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before mid-2013 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Annex 3

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 23 June 2004 and will apply its principles to all investment activity. In accordance with the Code, the Head of Finance has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. The Council's Treasury Management Officer is restricted to placing Specified Investment funds with:

Appendix A

Table A – Specified Investments

| | Specified Investments Category | Limit |
|---|--|--|
| a | <p>A body of high credit quality, this category includes the following –</p> <ul style="list-style-type: none"> <input type="checkbox"/> A UK bank or building society using Sector Creditworthiness service, with a minimum colour band of GREEN <input type="checkbox"/> Nationalised and Part nationalised banks can be included within specified investments as long as they remain part-nationalised | <p>£10m per institution or a maximum of 30% of total investment (whichever is the greatest), £10m per corporate group</p> |
| b | The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity) | no amount limit |
| c | UK local authorities | £5m per LA, £10m all LAs |
| d | <p>Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This category covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.</p> <p>CLG Investment Guidance specifies that Money Market Funds with high credit ratings are classified as Specified Investment. These funds are instant access investment. There is possibility that part of the investment may be exposed to counterparties the Council would not approve normally or invest directly. The counterparty risk is mitigated by that –</p> <ul style="list-style-type: none"> • The Fund Managers diversify investment in a range of counterparties; • The Funds are instant access; • The Council only invests in funds rated AAA; • DCLG Investment Guidance classifying such funds as Specified Investment. | <p>£5m per fund,</p> |

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Amounts invested with any one institution shall not exceed £2m for periods of more than 2 years. Amounts invested with any one corporate group shall not exceed £5m (with the exception of Councils own bank).

Amounts invested in non specified fixed term investment would normally not exceed 25% of the total Invested. The Head of Finance has the discretion to exceed the limit within reasons. If these circumstances are required this will be reported back to the appropriate committee.

Table B – Non Specified Investments

| | Non Specified Investment Category | Limit |
|----|--|--|
| a. | Any institutions meeting the criteria set out for Specified Investments , with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment). | £4m maximum of 2-years per institution |
| b. | Councils Bank – Should its ratings fall below that required for specified investment, monies will be restricted to instant access. | £7m |
| c. | Top 10 building societies, by asset value. | £2m maximum of 2-years per institution. £6m for all B/S sector |

Local Authority Mortgage Scheme. Under this scheme the Council will place a maximum fund of £5m, with one of the approved lenders participating in the LAMS scheme for a fixed period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories

Use of External Fund Managers –The Council currently uses external fund managers for part of its investment portfolio. The Council is not restricted to placing funds with cash managers, and will manage funds in house, use fund managers, or brokers if it is appropriate to do so.

The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council’s investment strategy. Currently the Council has an agreement with Tradition UK and Sterling International. The fund managers are required to adhere to the following:

- All investments restricted to sterling denominated instruments;
- Amounts invested with any one institution or Corporate Group should not exceed the limits specified in Table A and Table B.

Appendix A

- Portfolio management is measured against the return provided by the 3 month sterling LIBID, or in accordance with the measures specified in the contract.

The performance of investment managed by Fund Managers is reviewed at least quarterly by the Head of Finance.

Ethical Investment Statement - The council has approved the following ethical investment statement that will apply to all cash investments made by, or on behalf of, the council

“The Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply council deposits in a socially responsible manner.”

Counterparties shall be advised of the above statement.

Annex 4

Risk Management – The Council undertakes risk assessment for all fixed term deposits. The risk assessment uses the following template –

Risk assessment of new investment (last updated August 2009)

| Investment | Institution | Risk Assessment | | |
|--------------------|-----------------------------|--|-----|-------------------|
| Investment Product | Institution name | <i>Risk of the counterparty defaulting on investment</i> | | <i>Likelihood</i> |
| Principal Value | Eligibility | Counterparty on our specified list: Instant access | 1.4 | |
| | | Counterparty only on non specified list: Instant access | 1.7 | |
| | | Counterparty on our specified list: <=364 days | 2 | Unlikely |
| Term | Limit with this institution | Counterparty only on non specified list: <=364 days | 2.4 | |
| | | Counterparty only on non specified list: >364 days | 3 | Likely |
| Rate | Existing investment value | <i>Impact of losing the investment</i> | | <i>Impact</i> |
| Rate % | Value inc new investment | Total principal less than £700,000 | 1 | Negligible |
| | | Total principal between £700,000 and £1.4m | 2 | Minor |
| | | Total principal between 1.4m and £3.5m | 3 | Major |
| | | Total principal greater than £3.5m | 4 | Critical |

Risk Score :

Internal Reference Is it within the limit?

Risk assessed by:

Risk assessment date:

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: HEAD OF FINANCE

REPORT NO: HOF213

DATE: 6th December 2012

| | | |
|---|---|----------------------------------|
| TITLE: | Updating of Contract and Procurement Procedure Rules | |
| KEY DECISION OR POLICY FRAMEWORK PROPOSAL: | None | |
| PORTFOLIO HOLDER: NAME AND DESIGNATION: | Cllr Mike Taylor Assets and Resources Portfolio Holder | |
| CONTACT OFFICER: | Richard Wyles, Head of Finance r.wyles@southkesteven.gov.uk 01476406210 | |
| INITIAL IMPACT ASSESSMENT: | Carried out and Referred to in paragraph (7) below: | Full impact assessment Required: |
| Equality and Diversity | N/A | No |
| FREEDOM OF INFORMATION ACT: | This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk | |
| BACKGROUND PAPERS | HOF168 – Contract and Procurement Procedure Rules | |

1. RECOMMENDATION

Governance and Audit committee is asked to recommend to Council the approval of the updated Contract and Procurement Procedure Rules in relation to supporting local suppliers.

2. PURPOSE OF THE REPORT

The Contract and Procurement Procedure Rules (CPPR) set out the regulations which must be followed by the Council when it procures goods, services and works. The current CPPR were last updated in December 2011 to ensure they remained in line with best practice in terms of procurement practices and methodologies. Recently officers from South Kesteven and Procurement Lincolnshire have been reviewing how the Council can support Local suppliers as part of its priority to support the Local Economy.

3. DETAILS OF REPORT

The Council has been working with Procurement Lincolnshire and all its partners to adopt a Countywide strategy to support local Lincolnshire businesses which outlines a number of initiatives within its Joint Action Plan. Work has been undertaken with both senior management and the executive on how the Council can engage and deliver the Strategy which also includes defining what South Kesteven defines as 'local'.

The potential for positive action to support 'local suppliers' is substantially limited by EU Procurement Law. The EU Public Contract Regulations 2006 do not allow procurement awards to be made based on geographical location or ability to favour local businesses as this may be seen as discriminatory. However there are many ways that local businesses and the local economy can be legitimately supported through procurement based initiatives without contravening the Regulations

One of the procurement based initiatives detailed within the Joint Action Plan is the adoption of a procurement policy "Supporting Local Suppliers and SME's for low value purchases that are not subject to the EU regime and below the Council's threshold of £25,000, where a series of detailed rules must be followed which regulate how contracts are to be awarded. This draft Policy outlined in the table below has been developed to encourage Officers to consider purchasing from local suppliers when appropriate. The activities detailed in the table below demonstrate how the Council's in Lincolnshire can maximise their use of local suppliers; ensuring that adequate competition is maintained whilst minimising legal risk.

| Total Contract Value | Process | Action to be taken | Benefit |
|--------------------------------|--|--|--|
| £0 - £5,000 | 3 oral quotations – but, good housekeeping, better in writing (even a fax) | A local supplier should be used where appropriate | Local suppliers will be given the opportunity to bid for work. |
| £5,000 - £25,000 | Minimum of three written quotations | One of the quotations must be from a local supplier and a local supplier should be used where they provide the most economically advantageous offer. | |
| £25,000 - £75,000 | Request for Quotation | Advertise via Contract Publications but this must include advertising on Source Lincolnshire | Local suppliers can register on Source Lincolnshire to receive email alerts, ensuring they don't miss an opportunity to bid for work.* |
| £75,000 – EU Thresholds | Tender Process | | |
| Above EU Thresholds | Tender Process | Advertise on OJEU and Source Lincolnshire | |

The policy, if adopted, will form part of the Authorities' Contract Procedure Rules and will require that for all purchases up to £25,000 that one of the quotations must be from a local supplier and that the local supplier should be used where they provide the most economically advantageous offer. The definition of a "local" supplier within the policy is those suppliers whose trading premises are located within Lincolnshire.

4. OTHER OPTIONS CONSIDERED

None

5. RESOURCE IMPLICATIONS

The approval of the contract and procurement procedure rules has no direct resource implications

6. RISK AND MITIGATION (INCLUDING HEALTH & SAFETY AND DATA QUALITY)

In order to ensure contract and procurement activities are undertaken in accordance with legislative and policy then training and resource support will be provided to assist officers.

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENTS OF FINANCIAL SERVICES

Supporting Local suppliers and the impact on the local economy is an important issue for the council as it has significant influence in this area given the size of its spending power. The council has already adopted some of the initiatives suggested by Procurement Lincolnshire such as paying local suppliers in 10 days – 92% as at October 2012.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

It is important that any change to the Council's Contract Procedure Rules take into account the guidance provided by Lincolnshire Procurement to ensure compliance with the EU procurement principles and the Public Contract Regulations 2006 that will assist in minimising the risk of legal challenge.

Consideration and review of any potential change to the Council's Contract Procedure Rules falls within the terms of reference of the Governance and Audit Committee. After a review of the potential changes a report should follow from the Chairman of the

Governance and Audit Committee with a recommendation to Full Council who would need to approve any changes.

11. APPENDICES:

None

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: Cllr Paul Carpenter- Governance and Communication

REPORT NO: CSL023

DATE: 6 December 2012

| | | |
|---|---|--|
| TITLE: | Business Continuity Annual Report (Including Emergency Preparedness) | |
| KEY DECISION OR POLICY FRAMEWORK PROPOSAL: | N/A | |
| PORTFOLIO HOLDER: NAME AND DESIGNATION: | Cllr Paul Carpenter Governance and Communication | |
| CONTACT OFFICER: | Mark Jones- Community Safety and Licensing Service Manager Tel- 01476 406297 E-mail- m.jones@southkesteven.gov.uk | |
| INITIAL IMPACT ANALYSIS: Equality and Diversity | N/A | Full impact assessment Required: N/A |
| FREEDOM OF INFORMATION ACT: | This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk | |
| BACKGROUND PAPERS | The Civil Contingencies Act 2004 http://www.cabinetoffice.gov.uk/content/civil-contingencies-act | |

1. RECOMMENDATIONS

- 1.1 That the content of the Business Continuity Annual Report be noted.

2. PURPOSE OF THE REPORT

- 2.1 To provide the Governance and Audit Committee with an overview of the council's performance in respect of business continuity and emergency planning during the period April 2011 to November 2012.

3. Context

- 3.1 The Civil Contingencies Act 2004 places a statutory duty on local authorities to maintain plans that ensure they can continue to perform their functions in the event of an emergency, so far as is reasonably practicable. As defined by the Act, South Kesteven District Council is a Category 1 responder and is subject to the full set of civil protection duties.

These duties include:

- To carry out risk assessments and prepare emergency plans
 - Business Continuity management
 - Provide advice and assistance to business and voluntary organisations
 - Co-operation and information sharing
 - Communicating with the public
- 3.2 The aim of the business continuity programme is to build 'organisational resilience' to ensure that the Council can continue to deliver critical aspects of its day-to-day functions in the event of an emergency.
- 3.3 South Kesteven District Council's corporate business continuity management objectives are:
- To identify the critical activities within Council services in order to determine overall priorities for service continuity and recovery should a disruptive challenge occur.
 - To integrate business continuity work with existing risk management in order to identify and prioritise potential areas of vulnerability as well as corporate risk mitigation actions.
 - To provide a basis for cost benefit analysis based on risk appetite to determine which specific risk prevention and mitigation actions will be adopted.
 - To ensure the Council can continue its critical activities in the event of a situation disrupting 'business as usual' where reasonably practicable.
 - To ensure all service managers contribute to and take ownership of their service business continuity plans so that there is an effective and consistent response to service continuity.
 - To develop a process to review and update the plans.
 - To deliver training and awareness programmes.
 - To carry out tests of the business continuity plans in order to validate and develop the arrangements.

4. DETAILS OF REPORT

- 4.1 The annual cycle for reviewing the list of business critical activities, training relevant managers and reviewing service and business continuity plans has been carried out for this reporting period. There is still further work to be carried out as per the work schedule which can be found at appendix A.
- 4.2 All service area business continuity plans have been restructured, reviewed, updated and reissued. These plans provide each service with a framework for responding to business continuity incidents including key roles and responsibilities, actions, resources and emergency contact details.
- 4.3 The overarching Corporate Business Continuity Plan has also been reviewed and updated. The critical functions list within the corporate Business Continuity plan has been revised to reflect changes to service-critical activities. An example of where critical functions would need reinstating as soon as possible include the taking and passing of emergency related calls by the customer services team during normal office hours and the CCTV Control room for all out of hours calls. If residents are unable to report emergency repairs or dangerous structures their health and welfare could be at risk. Likewise Property Services needs to be able to respond to requests for emergency repairs to protect the most vulnerable residents.
- 4.4 A business continuity exercise was held on 6th November 2012 to test elements of the Corporate Business Continuity Plan. Twenty-three managers attended the exercise. An overview of Business Continuity and why it is essential to service delivery was given prior to the start of the exercise. The exercise focussed on a fire in the main building the day before elections. This provided the opportunity for managers to establish the validity of their business continuity plans and allowed them to share the service pressures that would be experienced during such an incident. It also allowed managers who provide less critical services to consider more accurately the roles they might be asked to undertake during an emergency whilst maintaining an acceptable level of everyday service.
- 4.5 Community Emergency and Flood Plans - The Joint Emergency Management Service (JEMS- County Council) in partnership with other organisations has been working with communities (Parish Councils) in an effort to encourage them to prepare their own emergency and flood plans. These plans enable a local co-ordinated emergency response in times of uncertainty, allowing Parish colleagues to safeguard their residents until emergency services arrive on scene. Plans also detail the dissemination of information to and from the Emergency Planning Unit and Environment Agency incident rooms and enable communities to assist blue light services during the incident, and then, the lead local authority during the recovery phase.
- 4.6 The Information and Communication Technology (ICT) department has carried out a number of live and test restores of our servers mainly for operational service delivery. This authority operates what are called virtual servers so we can build in resilience at many levels of ICT. For instance we can afford to have multiple hardware failures and still operate our servers.

ICT continue to have a shared disaster recovery contract that is shared with other districts in Lincolnshire. This allows for the delivery of hardware should we have a full business continuity issue. We have recently installed a data connection to the leisure centre which would allow critical services to be relocated if the main offices are not available.

- 4.7 The Emergency Plan has been reviewed, updated and reissued. The Emergency Plan outlines how SKDC will respond to the needs of the community during external emergencies whereas the Business Continuity Plan focuses on maintaining critical activities of the council. The plan contains useful contact telephone numbers (staff, elected members) and resources available in the local area. Incident-specific guidance is contained in the plan.
- 4.8 A mutual aid agreement is now in place between all Districts within Lincolnshire, this sets out how we will support each other during an emergency or time when service delivery is severely impeded by severe weather, staff shortage etc. This has already been tested on two occasions:
- During a flooding in June / July the Internal Drainage Boards offered support to District Councils and emergency services
 - During the Olympic Torch Relay a member of NHS Lincolnshire Communications Team assisted the SKDC Communications team.
- 4.9 Significant events- This reporting period has seen severe weather, episodes of social unrest, public protest and industrial action. Combined with the continuing budgetary pressure placed on all agencies within the public sector, this year had the potential to be challenging.

Fortunately, no major incidents significantly affected service delivery. However, the lessons learned by others during such events have been incorporated into our planning.

Although not directly related to business continuity, the Olympic Torch relay that travelled through our District during June/July did draw upon resources on an unprecedented level. The planning and preparation phase in itself for this event lasted some months which could have proved to be a problem were it not for the adaptable manner in which our staff undertakes its responsibilities. This provided a good indication as to the flexibility we can expect from our staff should it ever be necessary to deliver critical services in response to a significant business continuity incident.

- 4.9 A major multi-agency live exercise is planned for week commencing 20th May 2013. The scenario, which is already planned, is a train crash in the village of Claypole. Live play will be simulated at the Lincolnshire Fire & Rescue Urban Search and Rescue site on the A15 in Lincoln where the scene, using actual train carriages, has been constructed. A survivor reception centre will be opened in Claypole and a member of the JEMS team has been working with the community in Claypole to prepare its Community Emergency and Flood Plan. It is hoped the community, including the school, will be involved in the exercise. Staff from SKDC may be required to assist in the Survivor Reception Centre.

This may include staff from Customer Services and the Housing team. It could also include elected member representation.

In addition to the live play, the County Emergency Centre will be open from where strategic and tactical co-ordination will take place. This will involve all of the agencies that would respond to this emergency. This will include senior officers from SKDC who will be represented at both strategic and tactical command.

5. OTHER OPTIONS CONSIDERED

- 5.1 Adopting a managed approach to business continuity and emergency is a statutory duty under the Civil Contingencies Act, 2004. This is a key part of a well run council and reduces the risk of severe interruptions of critical services.

6. RESOURCE IMPLICATIONS

- 6.1 None identified

7. RISK AND MITIGATION

- 7.1 Risk has been considered as part of this report and any specific high risks are included in the table below:

| Category Risk | Action / Controls |
|--|--|
| Failure to maintain critical function service delivery | Function review carried out, Corporate and Service Business Continuity Plans developed |
| Failure to appropriately respond to an internal/external emergency situation | Corporate Emergency Plan developed |

8. ISSUES ARISING FROM IMPACT ANALYSIS

- 8.1 Not applicable

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 None identified

10. COMMENTS OF FINANCIAL SERVICES

- 10.1 Members are reminded the terms of reference for the Governance and Audit Committee include the responsibility to review the annual report and the effectiveness of the Council's business continuity arrangements. Risk management and business continuity are closely aligned with action plans being regularly reviewed to ensure arrangements are appropriate to ensure the Council can deal effectively with a situation in the event of an emergency. There are no specific financial comments to make.

11. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

11.1 The Council has a duty as a category 1 body to fulfil the duties detailed in the Civil Contingencies Act 2004.

12. COMMENTS OF OTHER RELEVANT SERVICES

12.1 None



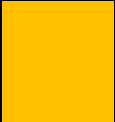


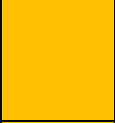


13. APPENDICES:



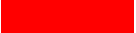
13.1 Appendix A- Business Continuity and Emergency Planning Work Schedule

Appendix A

South Kesteven District Council Business Continuity and Emergency Planning Work Schedule

| Task | Start Date | Target Completion Date | Status | Comments | Officer Responsible |
|--|------------------|---------------------------|--------|--|--|
| Provide emergency planning awareness training to SKDC Elected Members | 01 Oct 2012 | 01 Nov 2012 | | HR are coordinating this event, planning phase has started. | Emergency Planning Officer |
| Produce and circulate Elected Members Emergency Planning Guidance | 01 May 2012 | 01 Oct 2012 | | Guidance updated and will be issued at training event. | Emergency Planning Officer |
| Review and update Emergency Planning web pages on SKDC website | 01 Nov 2011 | Quarterly from start date | | Next update scheduled for 01 Feb 2013. | Emergency Planning Officer |
| Periodically produce articles for SK today and local media on topical Emergency Planning and Business Continuity issues such as how to be prepared for severe weather. | Ongoing Activity | Ongoing Activity | | | Emergency Planning Officer & Communications Officer |
| Review and update of IT Disaster Recovery Plan | 01 March 2012 | 01 May 2012 | | Document to be reviewed and updated annually. | Emergency Planning Officer & IT Manager |
| Review and update service area Business Continuity Plans | 01 April 2012 | 01 July 2012 | | A cross check of service area critical functions and those on the master list has taken place, plans have been updated accordingly. | Service Managers with advice from Emergency Planning Officer |
| Review and update the Emergency Plan | 01 March 2012 | 01 April 2012 | | The document has been reviewed. This refresh will be carried out annually. | Emergency Planning Officer Support staff |
| Promote Business Continuity | Ongoing Activity | Ongoing Activity | | Continue to work with local businesses, offering advice and support in relation to their own business continuity during and after disruption to normal business. | Emergency Planning Officer |
| Emergency Planning and Business Continuity refresher training for Senior Management Team | 01 June 2012 | 01 August 2012 | | This will be carried out annually, briefings will be held with any new members of the Management Team as required. | Emergency Planning Officer |

| | | | | | |
|---|------------------|-------------------------------|--|--|--|
| Attend Risk Management and Service Manager meetings as required. | As Required | As Required |  | Play an active role in raising awareness of BC and EP. | Emergency Planning Officer |
| Run an emergency planning exercise to test the District's Emergency Plan. | 01 Sept 2012 | 01 Oct 2012 |  | This will be carried out locally and will be supported by the relevant emergency services. | Emergency Planning Officer |
| Promote community resilience | Ongoing Activity | Ongoing Activity |  | There is a county group that leads on this project. Documentation for parish councils and communities will be available on www.lincolnshireprepared.co.uk and in hard copy from council offices. | Emergency Planning Officer |
| Prepare Set Up Manual for Mowbeck House (Emergency Centre) | 01 December 2012 | 01 March 2013 |  | Currently in draft format, to be completed by end of March 2013. | Emergency Planning Officer |
| Torch relay preparation | 01 March 2012 | July 2012 |  | This event saw a significant draw upon resources with some other stands of work being rescheduled. | Emergency Planning Officer, numerous district council officers at all levels |
| Gold Training and Silver Awareness training for Strategic Team and Heads of Service | Ongoing Activity | 01 March 2013 |  | This training to be carried out by the County Emergency Planning Team. | LRF Training and Exercising group |
| Review and update Corporate Business Continuity Plan and Strategy | 01 Dec 2012 | 01 May 2013 |  | The refresh of the Corporate BC plan has been carried out; the review of the strategy has been rescheduled. | Service Manager & Emergency Planning Officer |
| Prepare and present Business Continuity Annual report | 01 Sept 2012 | 6 th December 2012 |  | Follow up from 2011 report | Service Manager & Emergency Planning Officer |

Completed 
 In progress on target 
 In progress not on target 

Glossary: EP Emergency Planning
 BC Business Continuity
 LRF Local Resilience Forum