



Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE **Thursday, 29th November, 2012**

You are invited to attend the next meeting of **Audit and Governance Committee**, which will be held at:

Council Chamber, Civic Offices, High Street, Epping
on Thursday, 29th November, 2012
at 7.00 pm .

Glen Chipp
Chief Executive

**Democratic Services
Officer**

Gary Woodhall
The Office of the Chief Executive
Tel: 01992 564470
Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors A Watts (Chairman), C Finn and Ms S Watson

Independent Mrs M Peddle (Vice-Chairman) and R Thompson

1. WEBCASTING INTRODUCTION

I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit.

2. APOLOGIES FOR ABSENCE

(Assistant to the Chief Executive) To be declared at the meeting.

3. DECLARATIONS OF INTEREST

(Assistant to the Chief Executive) To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 24 September 2012 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. REPAIRS MANAGEMENT CONTRACT PRESENTATION (Pages 5 - 18)

(Director of Housing) To receive a presentation on the progress made by the Repairs Management Contract, originally given to the Housing Scrutiny Panel on 7 August 2012.

7. INTERNAL AUDIT MONITORING REPORT - JULY TO SEPTEMBER 2012 (Pages 19 - 36)

(Chief Internal Auditor) To consider the attached report (AGC-010-2012/13).

8. REPORTS OF THE EXTERNAL AUDITOR (Pages 37 - 48)

(External Auditor) To consider the following attached reports from the External Auditor (AGC-011-2012/13):

- (i) Annual Audit Letter 2011/12; and
- (ii) Audit Fee Outturn Summary 2011/12.

9. TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS - MID YEAR REPORT 2012/13 (Pages 49 - 64)

(Director of Finance & ICT) To consider the attached report (AGC-012-2012/13).

10. CO-OPTED MEMBERS - TERMS OF OFFICE

Recommendation:

(1) To consider the method to be adopted so as to ensure that overlapping 3 year terms of office are achieved for the two co-optees following recent changes to the Committee's Constitution.

1. (Assistant to the Chief Executive) At the Council meeting on 27 September 2012, Article 11 of the Constitution was amended following review. These amendments included changes to the terms of office of the co-opted members including:

- (a) introduction of 3 year terms of office;
- (b) a limit of two terms of office as of right;
- (c) an opportunity for two further 3 year terms but only after competitive advertisement;

(d) a requirement that re-appointment is conditional on satisfactory attendance; and

(e) creation of overlapping 3 year terms for succession planning purposes.

2. With the introduction of fixed three year terms of office, there is a need to introduce overlapping terms of office. The report made to the Council was as follows:

“15. There are two co-opted members at present and if our recommendation is accepted, the Panel recommend that their terms of office should be made to overlap to ensure that if one of them was to leave, continuity would be achieved through the other co-opted member. The Panel are proposing that the Audit and Governance Committee itself should consider how the terms of office of the two existing members can be made to overlap in future years.”

3. It is understood that the two co-opted members will discuss this issue and that a proposal will be made at the meeting.

11. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

12. EXCLUSION OF PUBLIC AND PRESS

Exclusion:

To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:

Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

- (1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;
- (2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and
- (3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:

Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

- (a) disclose any facts or matters on which the report or an important part of the report is based; and
- (b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

Report to Housing Scrutiny Standing Panel

Date of meeting: 7 August 2012

Portfolio: Housing – Cllr D. Stallan

**Subject: Repairs Management Contract
Presentation – 1-Year on**



Officer contact for further information:

Paul Pledger – Asst Director of Housing (Property) (01992 564248)

Committee Secretary: Mark Jenkins (01992 56 4607)

Recommendations:

- (1) That a joint presentation be given to the Housing Scrutiny Panel by the Assistant Director of Housing (Property) and Mears on the progress made in the Housing Repairs Service following the introduction of the innovative “In-sourcing” arrangements 1-year on from its introduction.**

Background

1. In May 2011, following an EU procurement exercise, the Council let an innovative “In-sourcing” contract with Mears as the External Repairs Management Company, whereby Mears manage the Council’s own in-house Housing Repairs Service with the intention of delivering a stepped change in performance and service for our tenants.
2. One year on from its introduction, the Assistant Director of Housing (Property) and the Housing Repairs Manager representing Mears will be giving a short presentation on the progress that has been made in improving the management and services being delivered to tenants. This presentation will include a section on the delivery of the 5 “Key Deliverables”, improvements in KPI’s and Value for Money achievements so far. This will include a demonstration of the new Mears MCM IT system.

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Housing Scrutiny Standing Panel, 7 Aug 2012

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Introductions

- Paul Pledger - Assistant Director of Housing (Property),
Epping Forest District Council

- Mike Gammack – Housing Repairs Manager
 - Tel 01992 564065
 - Mob 07739 306634

Understanding performance

- Productivity of operatives
- Assessing process waste
- Reducing the paper mountain
- Reduction in avoidable contact
- Real time information
- Reduction in administration
- Reduction in aborted jobs (no access)
- Reduction in fuel consumption

Key deliverables

- Implementation of efficient IT System
- Appointment based service
- Mobile handheld technology
- Review pricing model
- Supply chain review

IT, appointments and mobile working

- Mears Contract Monitoring software
- Mobile working, real time information
- Drive to appointments for everything
- 164% increase in appointments made
- Appointment slots
 - AM
 - School run
 - PM

		*Alan Dean	*Andy Flesher	*Chris Armes	*Dan Winpress	*Derek King	*Graham Marshall	*Jim McLintock	*John Hamilton	*John Widlake	*Mark Farthing	*Steve Doe	*Steve Kempson	*Terry Brewer	*Terry Payne	*Tony McCullagh	
06 August																	
08:00			08:52-17:52 ALDERSGROVE 4 ALDERSGROVE WALTHAM ABBEY ESSEX Job Description: (P.App) Attention JH. Remove plastic cladding to rear of house. Inspect for water ingress. Repair as necessary, replace cladding. JH/LM/AF to liaise with each other Appointment Notes:	Planned Appointment Notes: ASSISTANT STOREMAN		08:57-10:45 BLOCK 2 - 40 JESSOPP COURT SHERNBROKE ROAD WALTHAM ABBEY ESSEX EN9 3JF Job Description: Plastic fitting to light in communal kitchen in the day centre coming off.		No n Pr od uc tiv e Ap DO int m en t tes : Gr		08:53-08:58 LAWTON ROAD 2 LAWTON ROAD LOUGHTON ESSEX IG10 2AE	Sick Appointment Notes: SICK			Sick Appointment Notes: SICK	Holiday Appointment Notes:		
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12:00	12:00																
13:00	13:00	14:17-16:17 CRIPSEY AVENUE 65 CRIPSEY AVENUE ONGAR ESSEX CMS OAU Job Description: OJH TAPS TO BATHROOM REPLACE AS NECESSARY Renew Taps to Bath & WHB Appd 06/08 agreed with Tenant Appointment Notes:															
14:00	14:00																
15:00	15:00																
16:00	16:00																



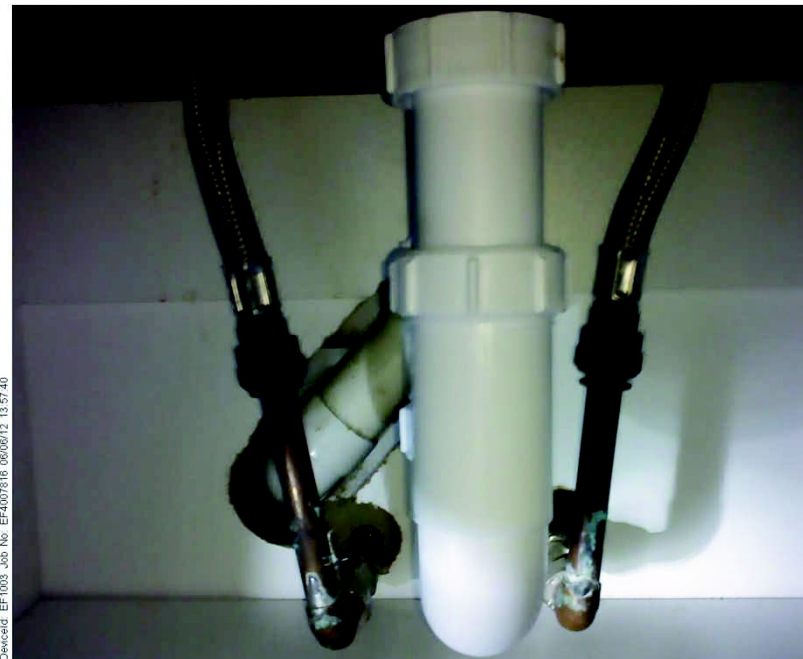
SMS Text messaging

- Appointment reminder
 - Estimated time of arrival
 - No access, please call to re-arrange
 - Your work has been completed
-
- I THANK MARK FARTHING FOR HIS REPAIR WORK
VERY PLEASED WITH THE TOILET FLUSH NOW
FROM MR P ANTHONY, 12th January 2012



Photographic evidence

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Performance Q1 2012 (April – June)

- | Quarter 1 | - | 2011/12 outturn |
|----------------------------------|---|-----------------|
| Emergency 100% | - | (99%) |
| Urgent 99% | - | (90%) |
| Routine 99% | - | (94%) |
| Voids 21.05 days | - | (29.43) |
| | | |
| Urgent average days to complete | | 1.65 days |
| Routine average days to complete | | 5.27days |

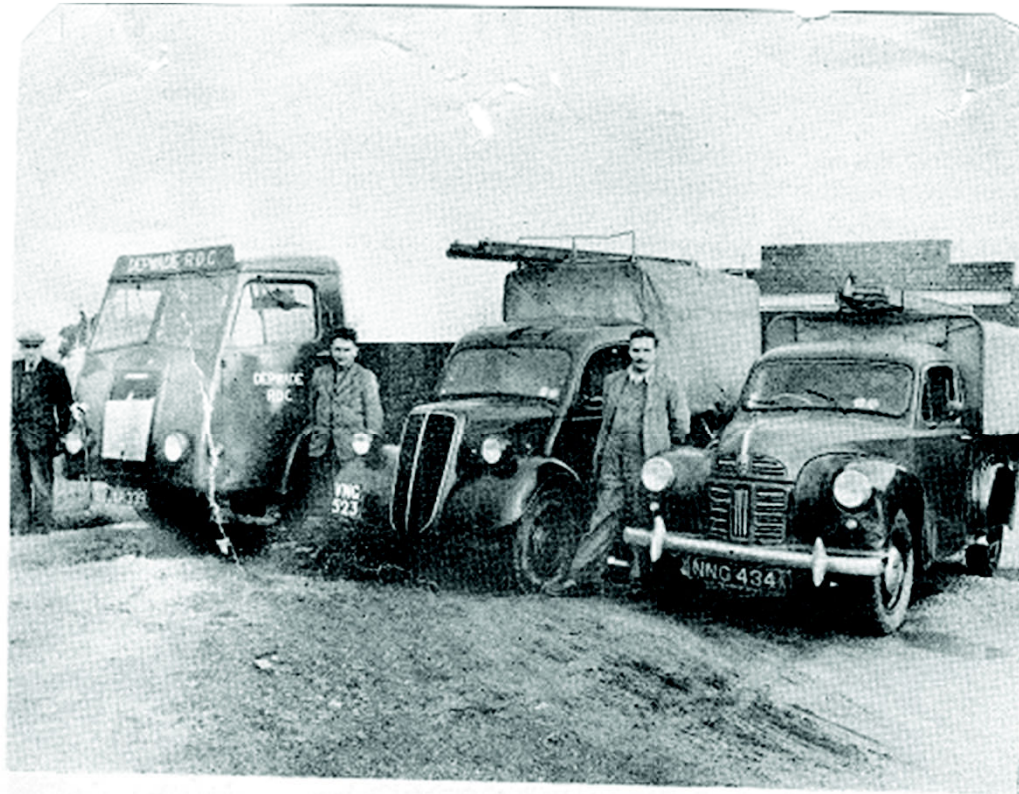
Added performance benefit

- Reduced no access by 70%
- Increase in average jobs completed by operative (1.9 to 4 per day)
- Customer satisfaction 99.88%
- Reduction in avoidable contact
- Operative performance reporting
- PDA tenant satisfaction data

Going forward

- Ability to add key deliverables
- Pricing matrix in place
- New technology options
- Electrical testing certificates
- Out of hours reporting
- Training options
- **Repairs Advisory Group**

Back to the future



SKILLED WORKMEN, WITH MODERN VEHICLES are employed by the Council to deal with the repair and maintenance of Council houses - but please call upon their services only when really necessary.

Report to the Audit and Governance Committee



Report reference: **AGC-010-2012/13**
Date of meeting: **29 November 2012**

**Epping Forest
District Council**

Portfolio: **Finance and Technology**

Subject: **Internal Audit Monitoring Report July - September 2012**

Responsible Officer: **Brian Bassington (01992 564446).**

Democratic Services Officer: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) The Committee is requested to note the following issues arising from the Internal Audit Team's second quarter monitoring report for 2012/13:

- (a) the reports issued between July and September 2012 and significant findings (Appendix 1);**
- (b) the Outstanding Priority 1 Actions Status Report (Appendix 2);**
- (c) the Limited Assurance Audits follow up status report (Appendix 3); and**
- (d) the 2012/13 Audit Plan status report (Appendix 4).**

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between July and September 2012, and details the overall performance to date against the Audit Plan for 2012/13. The report also contains a status report on previous priority 1 audit recommendations and the relevant Assistant Directors will be in attendance to discuss the current status as requested by the Committee at the September meeting.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

Other Options for Action:

No other options.

Report:

Work Carried Out in the Period

1. The audit reports issued in the second quarter are listed in paragraph 7 below.
2. Audits completed in the second quarter have covered ICT, Income and staff management, the detailed findings of which are in appendix 1. At the end of the quarter a further four audits were substantially complete and at the draft report stage.
3. Advice and guidance continues to be provided on a range of subjects which has

included disposal of furniture, disposal of scrap, scam emails, Contract Standing Orders, Freedom of Information and financial appraisals.

4. Work has begun on the next round of the biennial data matching exercise, the National Fraud Initiative (NFI), as directed by the Audit Commission. At the end of the quarter processes had been put in place for the extraction of data from the Creditors, Payroll, Housing Rents and Licences systems, ready for extraction and uploading of the encrypted files to the Audit Commission secure web site on the 1st October. Data on parking permits is no longer held by the Council and assurance was received from the North Essex Parking Partnership that they would be providing that data to the Audit Commission for this area. While preparing for the data extraction it was identified that further data on the applicants right to work status was required by the Audit Commission for taxi licenses which had not been collected by this Council. This is not a mandatory requirement, however the Council's data will not be matched to the immigration data provided by the UK Border Agency. The Senior Licencing Enforcement Officer has agreed to amend taxi license application forms to enable the Council to provide this data for the next data matching exercise.

5. The results of this data matching exercise will be made available in January 2013 and will be allocated to the relevant Directorates for investigation.

6. The Audit Commission have introduced the NFI's new flexible matching service (FMS) for the public sector which builds on the biennial exercise. FMS can match batch datasets as stand-alone tasks at a time and frequency that suits an organisation's operational requirements. This will enable one off data matching of high risk areas in addition to the biennial exercise, for a fee based on the number of data sets matched.

Reports Issued

7. The following audit reports were issued in the second quarter:

- (a) Full Assurance:
 - None;
- (b) Substantial Assurance:
 - Environmental Controls and Backup Procedures;
 - Fleet Operations Income;
 - Business Plans; and
 - Management of Sickness Absence;
- (c) Limited Assurance:
 - Legal Services Debt Recovery;
- (d) No Assurance:
 - None; and
- (e) At Draft Report Stage:
 - Recruitment and Selection;
 - Gifts and Hospitality (Members and Officers);
 - Corporate Procurement; and
 - Car Mileage.

Limited Assurance

8. During the quarter one report was issued with a Limited assurance rating. This audit covered the processes for debt recovery within Legal Services.

9. At the time of the audit, two litigation officers were responsible for managing approximately 380 debts which included charges for Housing Benefit overpayments, former tenant arrears, bed and breakfast charges, commercial rent, leasehold charges and rental loans. The audit attempted to demonstrate the cost effectiveness of the service (for debt recovery) however, the required information regarding the value of debts collected was not recorded within Legal. It was not possible to quantify the exact value of outstanding debts referred to Legal Services and the value of debts recovered as there was not a reporting facility for debts recovered by Legal Services. There are no performance indicators in place to report on the effectiveness of the debt recovery service in Legal.

10. Officers responsible for debt recovery will implement a system for recording debts collected after court proceedings are issued.

11. Court Costs are not always recovered as there is not a proper system in place for recording and collection of court costs. Debt recovery is not always cost effective if the costs of pursuing debts are not recovered. The audit has recommended invoices should be raised on the debtors system (AIMs) to ensure court costs are identified and charged to the debtor. This recommendation does not apply to housing benefit overpayments and current and former tenant arrears as they are managed separately.

12. This report has resulted in four priority one recommendations as detailed in appendix two and also three priority two and one priority three recommendations.

Follow Up of Previous Priority 1 Recommendations

13. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management.

Follow Up of Previous Limited Assurance Audits

14. Attached at Appendix 3 is a schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management.

Audit Plan 2012/13 (Appendix 4)

15. The status of the 2012/13 Audit Plan is set out at Appendix 4.

Performance Management

16. The Internal Audit Team has local performance indicator targets to meet in 2012/13, as set out below:

	Actual 2009/10 For year	Actual 2010/11 For year	Actual 2011/12 For year	Target 2012/13 For year	Actual 2011/12 Quarter 2	Actual 2012/13 Quarter 2
% Planned audits completed	87%	82%	82%	90%	38%	37%
% chargeable "fee" staff time	69%	66%	71%	72%	71%	76%
Average cost per audit day	£300	£307	£213	£245	£226	£223
% User satisfaction	94%	86%	89%	85%	86%	85%

17. The indicators are calculated as follows:

- (a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan;
- (b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system;
- (c) Average cost per audit day - the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system; and
- (d) % User satisfaction - a calculation is made each quarter based on returned client surveys for each audit giving a score on a five point scale 0 (poor) – 5 (excellent). The score is backed up by the client's comments on a range of issues related to the audit.

18. At the end of the second quarter the part time vacancy within the Internal Audit Unit had been filled with the new member of staff starting on 1 October.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit files and working papers.

Impact Assessments:

Risk Management

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?

There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

There are no specific equalities impacts.

Definition of Levels of Assurance

Level	Evaluation opinion	Testing opinion
Full assurance	There is a sound system of control designed to achieve the system objective.	The controls are being consistently applied.
Substantial assurance	While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system's objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system's objectives at risk.	The level of non-compliance puts the system's objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

SUMMARY OF AUDITS COMPLETED DURING QUARTER 2
July - September 2012

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Environmental Controls and Backup Procedures	Finance and ICT	<p>Substantial Assurance The back up procedures for the key systems are strong and well administered. Business continuity is built into the process and monitoring is effective in ensuring successful backups are completed. Environmental controls are in place to effectively safeguard the computer suites and ensure the minimum of disruption to service in the case of an issue. Audit has made two recommendations to strengthen the controls surrounding this process.</p>	<p>Audit review of the Environmental Controls and Backup procedures showed processes to be sound, monitoring methods effective and business continuity issues to have been embedded within the function. Best practice would be strengthened by implementing the recommendations highlighted by the audit.</p>
Fleet Operations Income	Corporate Support Services	<p>Substantial Assurance The systems and controls surrounding the recording and reconciliation of fleet operations income are operating satisfactorily.</p>	<p>Fleet Operations income is properly recorded and reconciled. MOT income is reconciled to the report of MOT tests, which is downloaded daily from the VOSA website.</p>
Business Plans	Office of the Chief Executive	<p>Substantial Assurance Business plans are generally produced and submitted in accordance with guidelines. Portfolio Holder approval is retained. The fully completed Business Plans, with one exception and the Approval from Portfolio Holders has been received prior to the April 1st 2012 deadline.</p>	<p>Audit review of the Business Plan process is generally compliant to the Authority's guidelines. Directorates to be reminded that all elements of the business plan to be collated and submitted to the Performance Improvement Unit by the 1st April each year as per the guidelines. Discussion and feedback during the Audit found the current template format not always conducive to the nature of the individual Directorates. For the business plan to add value as well as meet the Authority's requirements it would be of benefit for Directors to discuss their views on this in regards next years planning process.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Management of Sickness Absence	Corporate Support Services	<p>Substantial Assurance</p> <p>The systems in place for managing sickness absence are operating effectively. managers need to ensure the Monthly Certificates of Service include all sickness absence in the directorate. As part of the monitoring of sickness absence by Human Resources, Managers should be asked to provide explanations for any Informal Evaluation Meetings not carried out.</p>	<p>Sickness absence is recorded by the relevant manager using the RW1 forms, which are then forwarded to Payroll who record the absence on KCS. The Pay Section matches the RW1 to the RW2 once the employee has returned to work and ensures that Fit to Work certificates are provided where necessary.</p> <p>Human Resources monitor all sickness absence in the Authority including Evaluation Meetings held and referrals to the Occupational Health Doctor.</p> <p>Absence reports from KCS provide the information required for the quarterly reporting to the Finance and Performance Management Scrutiny Panel by the Assistant Director (Human Resources).</p>
Legal Services Debt Recovery	Corporate Support Services	<p>Limited Assurance</p> <p>There is a need to implement a proper system for recovering court costs as part of the legal debt recovery process. The implementation of the recommendations in this audit will ensure court costs due to the Council are monitored and increase the likelihood of recovering these debts in addition to the original debt.</p>	<p>This audit has identified improvement areas to enhance the system of control and to ensure the process for collecting unpaid debts is monitored and action is taken to maximise the prospects of debt recovery.</p> <p>Controls should be put in place to prompt Officers to check that court costs have been recovered and allocated to the correct account code.</p> <p>In accordance with Contract Standing Orders, three quotes should be obtained annually for the use of the contractor for tracing debtors and serve court documents.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			<p>Officers responsible for debt recovery should implement a system for recording debts collected after court proceedings are issued. This information will be used during the next Audit.</p> <p>The debt recovery process is not always cost effective as the resources are not available to ensure all debts referred to Legal are monitored regularly.</p> <p>Officers should be reminded of the importance of good quality data.</p> <p>The recommendations included in this report will address the weaknesses identified and improve the controls surrounding debt recovery.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT SEPTEMBER 2012**

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	<p>Income reconciliation Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion. Details of variances investigated should be recorded. Advice will be required from Finance & ICT regarding the information required from M3 and the general ledger.</p>	Assistant Director (Development)	Sept 2012	<p>Reconciliation between M3 and financial ledger reliant upon 3 different systems – finance, payments and income recording on M3 Northgate. Cheques are now individually itemized (previously batched) on the general financial ledger so progress and part reconciliation has been made. However, inadequate resources to carry out manual reconciliation and compatibility / merging of all 3 systems is reliant upon electronic ICT solution. A Northgate health check (September 2012) is currently underway to find a solution and enable full reconciliation.</p>	In Progress	Audit review planned for 3 rd quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	<p>Refunds Management should consider the use of a checklist to be used by Development Control Administration section to ensure that for each application the same data is recorded on M3 and/or the paying in spreadsheet. A report of refund transactions (DC120 9211) should be used to check that refunds are recorded correctly. It is recommended that the notes facility on M3 is updated with details of refunds. Officers responsible for authorising the refund should be reminded they are signing to confirm the refund is due.</p>	Assistant Director (Development Control).	Sept 2012	In respect of producing a report of refund transactions, crystal report training has taken place with key staff, but now awaiting the outcome of the Northgate Health check (September 2012) for further progress.	In Progress	Audit review planned for 3 rd quarter.
Licensing Administration	<p>Reconciliation Reconciliation between M3 and the cash receipting system not up to date. Reconciliation to be completed on a monthly basis by the end of the month following the month being reconciled.</p>	Assistant Director (Legal)	April 2012	Reconciliation is not being carried out due to insufficient resources (as at 30 th July 2012).		Audit to follow up in 3 rd quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Housing and Council Tax Benefits	Accuracy checks 5% accuracy checks of all assessments should be completed monthly.	Benefits Manager	1st September 2012.	The Benefits Manager has agreed to review on a monthly basis to ensure that accuracy checks are being completed. Evidence of this further check will be reviewed by Audit.	In Progress	This was a recommendation in the previous years audit and was highlighted by PKF in their annual report. Audit review planned for 3 rd quarter.
Housing and Council Tax Benefits	Sample review: Accuracy checks Accuracy checks should cover all officers involved in processing claims.	Benefits Manager	1st September 2012.	A review of the process of documenting accuracy checks to ensure the team leaders follow the same procedure will be carried out.	In Progress	Audit review planned for 3 rd quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Legal Debt Recovery</p>	<p>Record of court costs Sundry debt Invoices should be raised via AIMs to ensure court costs are identified and charged correctly. This recommendation does not apply to Housing Benefit overpayments and former tenant arrears.</p> <p>Consideration should be given to the fact that costs invoices will generally relate to debtors already on the system. Therefore the issue of reminders may not be applicable.</p> <p>Management should consider the benefit of employing an additional member of staff to raise invoices for court costs and monitor debts being managed by Legal.</p> <p>The Assistant Director (Legal) will require approval from Spending Control Officers for the use of Directorate budget codes when raising invoices.</p>	<p>Assistant Director (Legal), All Directors</p>	<p>31 March 2013</p>	<p>Agreed</p> <p>When sufficient data has been recorded on costs collected and amounts recovered as a result of court action, as recommended below, consideration will be given to the need for additional resources and the value for money aspects of the process.</p>		

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Legal Debt Recovery	<p>Monitoring of court costs Expenditure for court costs should be monitored periodically to ensure costs are a) charged to the debtor and b) recovered as part of the original debt.</p> <p>Costs recovered should be properly recorded for Audit purposes. Invoices should include a description of court fees.</p>	Assistant Director (Legal)	31/3/2013	Agreed		
Legal Debt Recovery	<p>Use of Contractor Quotes should be obtained on an annual basis to demonstrate value for money. See Contract Standing Orders C3 (2).</p>	Assistant Director (Legal)	31/3/2013	Agreed – In progress at the end of the audit.		
Legal Debt Recovery	<p>Value for money Officers responsible for debt recovery should implement a system for recording debts collected <u>after</u> court proceedings are issued. This information will be used during the next Internal Audit.</p>	Director of Corporate Support Services	31/3/2013	Agreed		

**INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT SEPTEMBER 2012**

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Building Maintenance Depot Stocktake	Housing	June 2012	P1. 1	P1.1	Q3 2012/13	<p>The audit identified that the stock database records could not be relied upon as there were a significant number of discrepancies identified. However, as management has already taken action to address this issue, a recommendation has not been raised.</p> <p>A Repairs Management Contract presentation – “1 Year On” was presented to a meeting of Housing Scrutiny Standing Panel held on Tuesday, 7 August 2012.</p>
Planning Fees	Planning and Economic development	March 2012	P1. 2 P2. 1	P1. 1	Q3 2012/13	A Northgate health check (September 2012) is currently underway to find a solution and enable full reconciliation.
Housing and Council Tax Benefits	Finance & ICT	June 2012	P1. 2 P3. 1	P1. 2 P3. 1	Q3 2012/13	<p>The recommendations made in the previous Housing and Council Tax Benefits audit surrounding accuracy checks have not been implemented. This was also reported as a high priority recommendation following the external auditors (PKF) annual review in September 2011.</p> <p>The Benefits Manager has agreed to review on a monthly basis to ensure that accuracy checks are being completed. Evidence of this further check will be reviewed by Audit during the third quarter.</p>
Legal Debt Recovery	Corporate	Sept2012	P1. 4	P1. 3	Q4	This audit has identified improvement areas to

	Support Services		P2. 3 P3. 1	P2. 3 P3. 1	2012/13	<p>enhance the system of control and to ensure the process for collecting unpaid debts is monitored and action is taken to maximise the prospects of debt recovery.</p> <p>Controls should be put in place to prompt Officers to check that court costs have been recovered and allocated to the correct account code.</p> <p>In accordance with Contract Standing Orders, three quotes should be obtained annually for the use of the contractor for tracing debtors and serve court documents.</p> <p>Officers responsible for debt recovery should implement a system for recording debts collected after court proceedings are issued. This information will be used during the next Audit.</p> <p>The debt recovery process is not always cost effective as the resources are not available to ensure all debts referred to Legal are monitored regularly.</p> <p>Officers should be reminded of the importance of good quality data.</p> <p>The recommendations included in this report will address the weaknesses identified and improve the controls surrounding debt recovery.</p>
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AUDIT PLAN 2012/13

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15		PKF
Sundry Debtors	system/follow up	20		PKF
Creditors	system/follow up	20		PKF
Treasury Management	system/follow up	15		PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10		PKF
Risk Management and Insurance	system/follow up	15		PKF
Main Accounting and Financial Ledger	system/follow up	15		PKF
Housing Benefits	system/follow up	25		PKF
Council Tax	system/follow up	25		PKF/R27/AC
National Non Domestic Rates	system/follow up	15		PKF/R27
Cash receipting and Income control	system/follow up	15		PKF
Provision for 'top up' testing	systems	25	Completed	PKF
Cash Office spot checks	verification	5		PKF
ICT				
Environmental controls/backup procedures	IT	10	Completed	PKF
Disaster recovery/business continuity	IT	10		PKF/R8
TOTAL		240		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Building Control	follow up	5	In Progress	R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	In Progress	R20
Car Parking	system	20		R27
North Weald airfield	establishment	15		R27
Leisure contract	contract	15		R20
TOTAL		70		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10	In Progress	R
TOTAL		10		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25		PKF/R27
Housing Lettings	follow up	5	In Progress	AC
Housing Repairs Service	system/follow up	15		
Housing Contracts	system	15		

Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		65		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25		PKF
Recruitment and Selection	Follow up	5	In Progress	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10		R
Car Mileage claims	verification	10	In Progress	R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20		R9
Property Management System - Asset Register	system	5		PKF
Fleet Operations income	system	5	Completed	R27
Legal				
Licensing	system	15		R27
Debt recovery	system	15	Completed	R27
TOTAL		115		
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	In Progress	R
Business Plans	verification	10	Completed	R
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15		AC/R20
Procurement	fraud	15		AC/R2
Council Tax Discounts	fraud	15		AC/R23
National Fraud Initiative (NFI)	fraud	15		R23
Data matching and analysis (IDEA software)	fraud	25		AC
CORPORATE				
Corporate Procurement	system/follow up	15	In Progress	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10		R
Data Protection Act	system	5		R18
Follow up of Priority 1 Audit recommendations	follow up	10	Completed	R23
Governance Statement	management review	5	Completed	AC/PKF
TOTAL		155		
TOTAL DAYS ALLOCATED				
Contingency/Spot checks/Minor investigations		40		R23
Corporate/Service Advice		55		
TOTAL		775		

Key

AC

PKF

R no.

R

Risk Identifier

Audit Commission

External Audit

Risk No. in Corporate Register

Reputation of Council

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Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-011-2012/13

Date of meeting: 29 November 2012

Portfolio: Finance and Technology

Subject: Reports from the External Auditor

Responsible Officer: Bob Palmer (01992 564279).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) To consider and note the reports of the external auditor.

Executive Summary:

This Committee has within its Terms of Reference the considering of reports made by the external auditor.

The first report is the Annual Audit Letter for 2011/12, which summarises the key issues arising from PKF's work during the year. The detailed findings from the audit work have already been reported to this Committee and there are no additional recommendations in this report. The Annual Audit Letter was circulated to Members of the Committee on 12 October 2012, to comply with Audit Commission requirements.

The second report is the Fee Outturn Summary for 2011/12, which sets out the final costs of the audit. The total code audit fee was £157,215 (2010/11 £160,700), compared to an estimate of £142,215 (2010/11 £149,700), and the claims and returns fee is still to be confirmed.

Reasons for Proposed Decisions:

To comply with the Committee's Terms of Reference and ensure the proper consideration of these reports.

Other Options for Action:

There are no other options for action.

Report:

1. The reports will be presented to the Committee by Mr Richard Bint, Senior Partner, and Ms Lisa Clampin, Partner.

Resource Implications:

Sufficient allowance was made in the original estimates for 2012/13 to cover the fees for the 2011/12 audit year and so no additional resources are required.

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendations in this report.

Safer, Cleaner, Greener Implications:

There are no implications arising from the recommendations in this report for the Council’s commitment to the Nottingham Declaration for climate change, the corporate Safer, Cleaner and Greener initiative or any Crime and Disorder issues within the district.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:

Risk Management

Action plans have been agreed to address areas of risk identified during the audit.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council’s general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

Annual Audit Letter 2011/12

Epping Forest District Council

OCTOBER 2012



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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Local Government Code of Audit Practice 2010](#)

[Statement of Responsibilities of Auditors and Audited Bodies](#)

Executive summary

This Annual Audit Letter summarises the findings of the work we have completed in respect of the year ended 31 March 2012.

SUMMARY OF HIGH LEVEL AUDIT ASSURANCES

✓ Financial statements

- The financial statements give a true and fair view of the Council's financial affairs and income and expenditure for the year and were properly prepared in accordance with the 2011 Code of Practice on Local Authority Accounting in the United Kingdom.
- The Annual Governance Statement was not misleading or inconsistent with other information of which we were aware.

✓ Internal control

- The significant financial systems are generally adequate for preparing the financial statements.
- One deficiency in internal control, within the housing and council tax benefit system, was identified and reported.
- We were able to rely on the work of Internal Audit.

✓ Whole of Government Accounts

- There were a large number of notable differences between the Whole of Government Accounts consolidation pack and the audited financial statements, not all of which resulted from audit amendments to the financial statements. These were corrected in the final Consolidation Pack.

✓ Use of resources

- We were able to satisfy ourselves that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.
- We issued an unqualified value for money conclusion.

Our detailed findings and recommendations were reported to Management and the Audit and Governance Committee in our Annual Governance Report to Those Charged with Governance (September 2012).

Introduction

THE PURPOSE OF THIS LETTER

The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to the Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public.

The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

RESPONSIBILITIES OF THE AUDITORS AND THE COUNCIL

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

SCOPE OF THE AUDIT

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money).

REPORTING THE AUDIT

We provided reports to "those charged with governance" (the Audit and Governance Committee) and management on the findings of the audit focussing on key issues regarding internal control, financial governance, accounting arrangements and use of resources. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

Reports issued during the year were:

- Audit Fee Letter issued April 2011
- Annual Audit Plan issued January 2012
- Letter to the Chair of the Audit and Governance Committee (significant deficiencies in internal control) issued August 2012
- Annual Governance Report to those charged with governance issued September 2012
- Annual Audit Letter issued October 2012
- Grants and Certification Work (2010/11 returns) issued February 2012.

ACKNOWLEDGEMENT

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

Key findings

ABOUT THE COUNCIL

The Council serves a population of around 123,000, with about half living close to its boundary with London, and there are six main centres within the 131 square miles of this green and rural district.

The Council comprises 58 elected Members representing 32 wards. It employs approximately 520 full time equivalent staff, and spends approximately £108m per annum (excluding the £185m HRA self financing spend incurred in 2011/12), providing a range of public services to the residents of the District. The Council's spend is funded by Central Government Grants, Council Tax, fees and charges (including housing rents) and other sources of income.

Further information on the activities of the Council is detailed in its eAnnual Reports and the Corporate Plan 2011-2015 which are publicly available on the Council's website at <http://www.eppingforestdc.gov.uk>.

FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 28 September 2012. Our opinion confirmed the financial statements gave a true and fair view of the Council's financial affairs at 31 March 2012 and of the income and expenditure recorded during the year then ended.

We did not identify any material errors within the financial statements that required correction. Immaterial misstatements ranging from £106,811 to £620,000 were identified and corrected during the course of the audit, the majority of which related to disclosure corrections made to achieve compliance with the Code of Practice on Local Authority Accounting 2011/12. These matters were reported in detail in our Annual Governance Report (September 2012).

There were seven uncorrected misstatements reported to Those Charged with Governance. Overall, the net impact on the financial statements should these have been corrected would have been to reduce expenditure and net assets by £115,000. Members accepted that these misstatements would remain uncorrected on the basis that their impact was not significant to the accounts.

There was one other matter of significance discussed with management and reported to Those Charged with Governance which was in respect of a significant change made to the useful economic lives of the Council's housing stock components and a resultant material reduction in the annual depreciation charge. We concluded that the change was an enhancement to the Council's methodology for recording and calculating information relevant to the depreciation charge, and had been properly calculated.

Annual Governance Statement

We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.

INTERNAL CONTROL

The Council's significant financial systems were generally adequate as a basis for preparing the financial statements although one deficiency in the housing and council tax benefit system was identified and reported to Those Charged with Governance. This matter was also identified and reported by Internal Audit, upon whose work we were able to rely in discharging our audit responsibilities.

WHOLE OF GOVERNMENT ACCOUNTS

The Whole of Government Accounts Consolidation Pack had a number of notable variances from the financial statements, not all of which were as a result of amendments arising from the audit of the financial statements.

These differences were corrected in the final version of the Consolidation Pack submitted to the National Audit Office. We issued our assurance statement, stating that the final Consolidation Pack was materially consistent with the audited financial statements, on 5 October 2012.

USE OF RESOURCES

Financial resilience

Our financial resilience work has considered the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

The Council has maintained its good track record of successful financial management arrangements, achieving its savings, building up general fund reserves and maintaining housing revenue account reserves at a suitable level in 2011/12.

The Council is on track to deliver its 2012/13 budget and although its medium term financial plan forecasts that it will be necessary to utilise reserves during 2013-2017 it is estimated that usable reserves at the end of this period will still be in the region of £7.7m. This is significantly more than the minimum level of reserves necessary to comply with its own financial management policies.

Challenging economy, efficiency and effectiveness

The Council has continued to review and consolidate its baseline arrangements for challenging and securing value for money during 2011/12. The arrangements operated during the year remain adequate. Performance management and risk management arrangements that support the achievement of value for money are evidenced as continuing to operate as previously assessed with no contra-indicators.

The Council continued to review its benchmarked performance against its nearest neighbours. We expect that any resultant in-depth studies completed in 2012/13 to challenge value for money will be driven by the outcomes from the various internal and external reviews undertaken in the pursuit of improved value for money outcomes. During 2011/12 a number of efficiency savings have been achieved through partnership working arrangements, including joint procurement.



Accountants &
business advisers

Epping Forest District Council

Fee outturn summary 2011/12

October 2012

1 Fee outturn

1.1 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Fee Letter, as updated in your Annual Audit Plan (issued in February 2012 and presented to the Audit Committee in March 2012).

1.2 We have now concluded the audit agreed with officers further additional fees in respect of the accounts audit and the final outturn fee for 2011/12 is set out in the table below:

Audit area	Planned Fee per Annual Audit Plan £	Outturn Fee £	Variance £
Planning and Reporting	28,500	28,500	-
Financial Statements, including WGA	82,215	97,215	15,000
VFM Conclusion	31,500	31,500	-
Total Code audit fee	142,215	157,215	15,000

1.3 The additional fees in respect of the accounts audit were as a result of additional:

- time spent by senior staff to comment on the options for self financing of the HRA.
- substantive and other audit procedures being performed to address issues arising in respect of the Collection Fund, changes in the useful economic lives of HRA properties and accounting for income and expenditure in the correct periods.
- time spent on the Whole of Government Accounts (WGA) which was necessary due to the number of changes required to the draft WGA return that needed to be processed and re-agreed to revised accounts. Additional liaison time during the final stages of audit was also required.

1.4 At the time of issuing this paper, our work on the 31 March 2012 grant claims remains on-going. We will issue a detailed report on the findings from our work in December 2012, once all claims have been certified, and this will include the final outturn fee for certification work completed as an agent of the Audit Commission. However, at this time we still anticipate that the fee for certification of claims for the year ended 31 March 2012 will be in line with our planned fee of £58,000

1.5 No non Code audit work was undertaken.

Report to the Audit & Governance Committee



Report reference: AGC-012-2012/13
Date of meeting: 29 November 2012

**Epping Forest
District Council**

Portfolio: Finance & Technology

Subject: Mid-Year Report on Treasury Management and Prudential Indicators 2012/13

Responsible Officer: Peter Maddock (01992 564602).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To note how the risks associated with Treasury Management have been dealt with in the first half of 2012/2013; and
- (2) To make any comments or suggestions that Members feel necessary to the Finance & Performance Management Cabinet Committee.

Executive Summary:

The mid-year treasury report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the first half of the financial year 2012/13.

During the first half of the year: the Council has rephased its capital programme with £3.4m moving out of 2012/13 and into future years; the Council has continued to finance all capital expenditure from within internal resources; the average net investment position has been approximately £53.6m; and there have been no breaches on any of the prudential indicators.

Reasons for Proposed Decision:

To inform the Committee about the risks associated with Treasury Management and how the Council has sought to manage these risks.

To comply with the Committee's role and responsibilities, which include to be responsible for the scrutiny of the Council's Treasury Management Strategy, including consideration of mid financial year and outturn reports.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

Introduction

1. 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), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the current year. The updated code in November 2009 also recommended that Members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

2. The report attached at Appendix 1 shows the mid-year position of the treasury function in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital Activity in the Year

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.

4. The Council does not plan to borrow in order to carry out its capital investment. The original estimate and probable outturn, along with the spend to month 6 (30 September 2012) is shown below in the table:

Capital Expenditure	Financial year 2012/13		
	Estimated £m	Revised £m	to month 6 £m
Non-HRA capital expenditure	5.601	4.733	0.779
HRA capital expenditure	12.863	10.313	4.036
Total Capital expenditure	18.464	15.046	4.815
Financed by:			
Capital grants	0.728	0.909	
Capital receipts	4.910	3.899	
Revenue	12.826	10.238	
Total resources Applied	18.464	15.046	

5. The current probable outturn for 2012/13 shows a drop in capital expenditure of £3.4m, which has been re-phased into the capital programme for future years. This will mean a reduction in the use of capital receipts in the current financial year of £1.01m, but increases in the following year. This will result in a higher than anticipated level in reserves when calculating potential investment interest for the current financial year.

6. There is a financial risk involved in reducing the balance of usable capital receipts over the next five years. This risk is included in the Council's Corporate Risk Register (No. 17) and identifies the following potential consequences; loss of interest; loss of cover for contingencies; financial strategy becoming untenable in the long run; service reductions required; and large Council Tax increases required.

7. This prudential indicator assists the Council in controlling and monitoring the level of usable capital receipts that will be available at the end of a five-year period. Currently, the Capital Programme for the next five years totals £86.8m and is fully funded. It is predicted that at the end of 2016/17 there will still be £8.1m available in usable Capital Receipts and £3.2m in the Major Repairs Reserve. Therefore it can be concluded that adequate resources exist for the Capital Programme in the medium term.

The Impact on the Council's Indebtedness for Capital Purposes

8. The Council's underlying need to borrow is called the Capital Financing Requirement

(CFR). This figure is a gauge for the Council's debt position. The Council now has an overall positive CFR (HRA and Non-HRA) following the borrowing in relation to the HRA self-financing, but has no underlying need to borrow for capital purposes as highlighted in the previous section.

CFR	Financial year 2012/13		
	Estimated £m	Revised £m	to month 6 £m
Non-HRA	31.097	30.281	30.281
HRA	153.575	154.391	154.391
Total Capital expenditure	184.672	184.672	184.672

9. The Director of Finance & ICT confirms that there were no breaches of the Authorised Limit (£200m), the Operational Boundary (£186m) and the Maturity Structure of Fixed Rate Borrowing during the period to 30 September.

10. The risks for Councils are associated with affordability, interest rates and refinancing – the affordability risk is whether the Council can afford to service the loan, this has been evidenced through the Council producing a viable thirty-year financial plan. This plan is reviewed quarterly by officers and half yearly reports are presented to Housing Scrutiny Panel. The interest rate risk is whether a change in interest rate could have an impact on the viability of the financial plan. The Council received advice from our treasury advisors before undertaking the borrowing. Only 17% of the amount borrowed was at a variable rate, the remainder was fixed. Any upward movement in interest rates would be 'hedged' by a corresponding increase in interest earned on Council investments. The refinancing risk is that maturing borrowings, capital project or partnership financing cannot be refinanced on suitable terms. Within the financial plan it is anticipated that all borrowing will be repaid when matured and all future capital expenditure will be financed through internal resources, therefore no risk currently exist for refinancing.

11. These prudential indicators assist the Council in controlling the level of debt the Council may need to finance over the coming years and ensure where debt is owed it is managed, such that the Council would not be left in a situation where it finds itself having to refinance on unsuitable terms.

The Council's Treasury Position

12. During the first half of 2012/13 the average investment position for the first half of the year was £53.6m. The table below shows the treasury position as at 30 September 2012.

Treasury position	31/03/2012 £m	30/09/2012 £m
Total external borrowing	(185.456)	(185.456)
Short term investment		
▪ Fixed investment	32.349	38.182
▪ Variable investment	10.000	10.000
Long term investment	0.137	0.137
Total investments	42.486	48.319
(Net Borrowing) / Net Investment Position	(142.970)	(137.137)

13. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.

14. The Director of Finance & ICT confirms that there have been no breaches of:
- (a) The Upper Limit for Fixed Rate Exposure (100%) and Upper Limit for Variable Rate Exposure (50%) on investments during the period, with the average rates of 63.53% and 36.47% being achieved;
 - (b) The limit set for investment over 364 days (£30m), the Council made one investment of £5m over 364 days and the average length of investment for the period is 138 days; and
 - (c) The limit set for investment in non UK Country (30%), however the Council made no investments to counterparties outside of the UK.
15. The risks associated to this section are as follows:
- (a) Credit and Counterparty Risk – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury management advisors (Arlingclose).
 - (b) Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Finance & ICT has treasury meetings with treasury staff, to go through the cash flow for the coming month. A number of instant access accounts are used to ensure adequate cash remains available.
 - (c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council has currently around 20% of its investments in variable rates, and the remainder are in fixed rate deposits on average for around 197 days. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates. The view of the Council's treasury advisors is that interest rates are unlikely to change significantly in the short to medium term.
16. The prudential indicators within this section assist the Council to reduce the risk of:
- (a) Counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money;
 - (b) The Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate amounts of money are available immediately through instant access accounts; and
 - (c) Potentially losing out on investment income when interest rates start to increase by ensuring that most deposits are kept within one year.

Heritable Bank

17. During the first half of this financial year, the Council has received further dividends of 6.64% (£166,695) from the administrators of the Heritable Bank. The latest administrators report indicates that a further dividend is due in January 2013, ultimately it is expected that total dividends will be around 90% of the value of deposits.

Resource Implications:

The continued low interest rate will result in estimated investment income to the Council reducing to around £514,000 in 2012/13 against an original budget of £561,000.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.

Under section 21(1)AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury management advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

The report on the Council's Prudential Indicators for 2012/13 to 2014/15 and the Treasury Management Strategy for 2012/13 went to Council on 14 February 2012 and were amended at Council on 27 March 2012.

The report on the Council's Corporate Risk Register that went to Finance & Performance Management Cabinet Committee on 25 June 2012.

Impact Assessments:

Risk Management

As detailed in the report, a risk averse position is adopted to minimise the chance of any loss of the capital invested by the Council. The specific risks associated with the different aspects of the treasury management function have been outlined within the main report.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

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1. Background

The Council's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. Economic Background

Growth: The world economy faced yet another soft patch. The UK and the Eurozone (with the exception of Germany) struggled to show discernible growth whilst the US economy grew slowly. UK GDP contracted by 0.3% in the first calendar quarter of 2012 and by 0.4% in second, reflecting the difficult economic conditions faced by businesses and consumers domestically and globally. Businesses were more inclined to take defensive strategies involving cost cutting rather than increasing capital spending. Financial conditions facing households continued to be weak as wage growth remained subdued and was, for much of the period, outstripped by inflation. (Much of the fall in Q2 GDP could probably be attributed to the impact of the additional bank holiday for the Diamond Jubilee, and could be recovered in Q3.)

Inflation: Inflation, which had remained stubbornly sticky throughout 2011, slowly began to fall. Annual CPI dipped below 3% for the first time in two and half years in May and fell to the lowest level since November 2009 in June, with a reading of 2.4%. It ticked up marginally to 2.5% by August. Although the recent rise in commodity prices has been worrying, the rise in oil and food prices - the latter mainly due to poor weather-related yields - are well below the spikes of 2010-11.

Some barometers of economic activity, however, provided a more buoyant and positive picture but tended to get overshadowed. Employment rose by 236,000 in the three months to July and the employment rate was at its highest since the three months to April 2009. The ILO unemployment rate fell 0.1% on the quarter to 8.1%. Whilst the effect of the Olympics undoubtedly played a part, despite its temporary nature, the underlying data pointed to a more resilient and optimistic outlook for the economy.

The lack of growth and the fall in inflation were persuasive enough for the Bank of England to sanction £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut from the current level of 0.5% was discussed at the Bank's Monetary Policy Committee meetings in June and July; however reference to it was subsequently dropped suggesting that this policy option had left the table for the immediate future. The government's Funding for Lending (FLS) initiative, intended to lower banks' funding costs, commenced in August. The Bank of England will assess its effects in easing the flow of credit before committing to further policy action.

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Banks were embroiled in the scandal to manipulate LIBOR rates during the abnormal market conditions at the height of the 2007/2008 financial crisis. Barclays was fined a record £290 million, the FSA was also investigating HSBC, RBS, Citicorp and UBS; Lloyds was named in a lawsuit in the US. The big-four UK banks were also being investigated for mis-selling interest rate swaps to small businesses.

The US Federal Reserve extended quantitative easing through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. Poor employment data for August preceded the Fed further easing monetary policy at its September meeting; The Fed committed to purchasing \$40 billion of agency mortgage-backed securities each month until the outlook for the labour market improves "substantially." The Fed also pledged to keep interest rates low until mid-2015. In Greece, the formation of an alliance of pro-euro parties after a second round of parliamentary elections prevented an immediate and disorderly exit from the Euro. The Euro region suffered a renewed bout of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. The European Central Bank responded with the announcement in September of its Outright Monetary Transactions (OMT) facility which allows the ECB to buy unlimited amounts of 1-3 year sovereign bonds provided the sovereign(s) first asks for such assistance and adheres to the strict conditionality attached to such purchases.

Gilt Yields and Money Market Rates: Gilt yields fell sharply raising the prospect that very short-dated yields could turn negative. 2-year yields fell to 0.06%, 5-year yields to 0.48% and 10-year yields to 1.45%. Despite the likelihood the DMO would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended QE programme; investors preferring the safer haven of UK government bonds to those of European sovereigns; the coalition's commitment to fiscal discipline by sticking to its "plan A" for deficit reduction; large scale purchases by banks to comply with the FSA's liquidity buffer requirements; and general risk aversion against a weak economic backdrop. PWLB borrowing rates fell commensurately (the Board maintained the +0.90% margin above the equivalent gilt yield for new borrowing).

Money market rates fell over the six month period by between 0.2% to 0.6% for 1-12 month maturities.

3. Debt Management

	Balance on 01/04/2012 £m	Debt Maturing £m	Debt Repaid £m	New Borrowing £m	Balance on 30/09/2012 £m	Increase/ Decrease in Borrowing
Short Term Borrowing	0.000	0.000	0.000	0.000	0.000	-
Long Term Borrowing*	185.456	0.000	0.000	0.000	185.456	-
TOTAL BORROWING	185.456	0.000	0.000	0.000	185.456	-
Average Rate % / Life (yrs)	3% / 25 yrs	NA	NA	NA	3% / 25 yrs	-

(*this relates to £185.456m borrowed in March 2012 for HRA self-financing settlement).

PWLB Borrowing: The PWLB remains an attractive source of borrowing for the Council as it offers flexibility and control. The large downward move in gilt yields in the second quarter resulted in PWLB rates falling across all maturities (tables 2 and 3 in Appendix 2).

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Alternative borrowing sources: Whilst there are several claims that a competitive, comparable equivalent to long-dated PWLB borrowing is readily available, the Council will continue to adopt a cautious and considered approach to funding from the capital markets.

For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding £15m of capital expenditure. This has lowered overall treasury risk by reducing temporary investments. The medium term capital programme can be fully financed by internal resources.

4. Investment Activity

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Investments

	Balance on 01/04/2012 £m	Investments Made £m	Investments Repaid £m	Balance on 30/09/2012 £m	Increase/ Decrease in Investments
Short Term Investments	42.349	88.000	82.167	48.182	+£5.833m
Long Term Investments	0.137	0.000	0.000	0.137	-
TOTAL INVESTMENTS	42.486	88.000	82.167	48.319	+£5.833m

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13. New investments were made with the following institutions:

- Other Local Authorities;
- AAA-rated Money Market Funds;
- Term Deposits with UK Banks and Building Societies systemically important to the UK banking system.

Counterparty credit quality was assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

Credit Risk

Counterparty Update

In June Moody's completed its review of banks with global capital market operations, downgrading the long-term ratings of all of them by between one to three notches. The banks on the Council's lending list which were affected by the ratings downgrades were Barclays, HSBC, Royal Bank of Scotland. Separately, the agency also downgraded the ratings of Lloyds Bank, Bank of Scotland, National Westminster Bank and Santander UK plc. None of the long-term ratings of the banks on the Council's lending list were downgraded to below the Council's minimum A-/A3 credit rating threshold.

Counterparty credit quality is demonstrated by the Credit Score Analysis summarised below. The credit scores are based on the Council's quarter-end in-house investment position.

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Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2012	4.35	AA-	5.36	A+
30/06/2012	4.12	AA-	5.56	A
30/09/2012	4.56	A+	2.42	AA+

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 27

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Following the decision to shorten deposit durations with investment counterparties back in May this year, the Council has since extended duration (decision made in late July). The move to extend duration was as a result of monitoring economic and political developments in the UK, Europe and globally. The various risk metrics used to assess the creditworthiness of financial institutions had shown continued signs of stabilisation, and in some cases, considerable improvement.

Maturities for new investments with financial institutions on the Council's list are currently as follows:

UK Institutions

- Santander UK for a maximum period of 100 days;
- Royal Bank of Scotland, National Westminster, Lloyds TSB, and Bank of Scotland for a maximum period of 6 months;
- HSBC Bank, Standard Chartered, Barclays Bank, and Nationwide Building Society for a maximum period of 12 months.

Budgeted Income and Outturn

The Council's budgeted investment income for the year has been estimated at £0.561m. The average cash balances representing the Council's reserves, were £53.6m during the period.

The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2015/2016. Short-term money market rates have remained at very low levels (see Table 1 in Appendix 2). New investments were made at an average rate of 0.98%. The Council anticipates an investment outturn of £0.514m for the whole year.

Icelandic Bank Investment Update

The following has now been resolved in relation to Icelandic deposits:

- **Heritable** - It is expected that 88p/£ will be recovered overall. 75% has been recovered to date, and a further 7% is expected in 2012/13.

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5. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2012/13, which were set in February 2012 as part of the Council's Treasury Management Strategy Statement). Details can be found in Appendix 1.

6. Outlook for Q3-Q4

At the time of writing this activity report in October 2012, economic growth remains elusive. Tight credit conditions and weak earnings growth are constraining consumer and corporate spending. The outlook is for official interest rates to remain low for an extended period, as shown below.

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

7. Summary

In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary report of the treasury management activity during the first two quarters of 2012/13. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

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Appendix 1

Capital Financing Requirement

Estimates of the Council's cumulative maximum external borrowing requirement for 2012/13 to 2014/15 are shown in the table below:

	31/03/2012 Actual £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
Capital Financing Requirement				
HRA	154.391	154.391	154.391	154.391
Non-HRA	30.281	30.281	30.281	30.281
Less:				
Existing Profile of Borrowing	0.000	0.000	0.000	0.000
Less:				
Other Long Term Liabilities	0.000	0.000	0.000	0.000
Cumulative Maximum External Borrowing Requirement	184.672	184.672	184.672	184.672

Usable Reserves

Estimates of the Council's level of Usable Reserves for 2012/13 to 2014/15 are as follows:

	31/03/2012 Actual £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
Usable Reserves	47.1	50.0	50.0	50.0

Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Council's Affordable Borrowing Limit was set at £200m for 2012/13.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for 2012/13 was set at £186m.
- The Director of Finance & ICT confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak was £185.5m.

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

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Interest Rate Exposures	Existing level at 31/03/12 %	2012/13 Approved %	Actual %
Fixed			
Upper Limit for Fixed Interest Rate Exposure on Debt	83	100	83
Upper Limit for Fixed Interest Rate Exposure on Investments	(69)	(100)	(64)
Variable			
Upper Limit for Variable Interest Rate Exposure on Debt	17	25	17
Upper Limit for Variable Interest Rate Exposure on Investments	(31)	(75)	(36)

(c) Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 30/09/12	% Fixed Rate Borrowing as at 30/09/12	Compliance with Set Limits?
Under 12 months	100	0	£0m	0	Yes
12 months and within 24 months	100	0	£0m	0	Yes
24 months and within 5 years	100	0	£0m	0	Yes
5 years and within 10 years	100	0	£0m	0	Yes
10 years and above	100	0	£153.656m	100	Yes

(d) Gross and Net Debt

- The purpose of this treasury indicator is to highlight a situation where the Authority is planning to borrow in advance of need.

Upper Limit on Net Debt compared to Gross Debt	2011/12 Actual £m	2012/13 Estimate £m	Compliance with Set Limits?
Outstanding Borrowing (at nominal value)	185.456	185.456	Yes
Other Long-term Liabilities (at nominal value)	0	0	-
Gross Debt	185.456	185.456	-
Less: Investments	-47.100	-50.000	-
Net Debt	138.356	135.456	Yes

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(e) Net Debt and the Capital Financing Requirement

- This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.
- The Authority had no difficulty meeting this requirement so far in 2012/13, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

(f) Total principal sums invested for periods longer than 364 days

- This indicator allows the Council to manage the risk inherent in investments longer than 364 days.
- The limit for 2012/13 was set at £30m. £5m of investments were made for a period greater than 364 days during this period.

(g) Credit Risk

- This indicator has been incorporated to review the Council's approach to credit risk.
- The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions.
- Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Authority's assessment of counterparty credit risk. The authority considers the following tools to assess credit risk:
 - Published credit ratings of the financial institution and its sovereign;
 - Sovereign support mechanisms;
 - Credit default swaps (where quoted);
 - Share prices (where available);
 - Economic fundamentals, such as a country's net debt as a percentage of its GDP);
 - Corporate developments, news, articles, markets sentiment and momentum.
- The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2012/13 TMSS:
 - long-term ratings of A- or equivalent;
 - long-term ratings of AA+ or equivalent for non-UK sovereigns.

(h) HRA Limit on Indebtedness

- This purpose of this indicator is for the Council to report on the level of the limit imposed at the time of implementation of self-financing by the Department for Communities and Local Government.

HRA Limit on Indebtedness	31/03/2012 Actual £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
HRA CFR	154.391	154.391	154.391	154.391
HRA Debt Cap (as prescribed by CLG)	185.456	185.456	185.456	185.456
Difference	31.065	31.065	31.065	31.065

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Appendix 2

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year and rather than those in the tables below

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2012	0.50	0.55	0.55	0.61	1.00	1.33	1.84	1.22	1.30	1.59
30/04/2012	0.50	0.50	0.65	0.60	0.99	1.32	1.84	1.35	1.43	1.68
31/05/2012	0.50	0.48	0.65	0.57	0.97	1.30	1.82	1.20	1.20	1.34
30/06/2012	0.50	0.50	0.50	0.55	0.83	1.13	1.65	0.96	0.99	1.25
31/07/2012	0.50	0.50	0.65	0.45	0.63	0.92	1.43	0.76	0.77	1.02
31/08/2012	0.50	0.50	0.52	0.40	0.57	0.81	1.23	0.75	0.78	1.03
30/09/2012	0.50	0.25	0.52	0.40	0.47	0.66	0.95	0.70	0.76	1.00
Average	0.50	0.46	0.54	0.51	0.79	1.08	1.57	1.01	1.05	1.28
Maximum	0.50	0.55	0.65	0.61	1.00	1.33	1.84	1.38	1.45	1.72
Minimum	0.50	0.25	0.30	0.40	0.47	0.66	0.95	0.70	0.76	1.00
Spread	0.00	0.30	0.35	0.21	0.53	0.67	0.89	0.68	0.69	0.72

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	1.29	2.07	3.25	4.22	4.43	4.46	4.41
30/04/2012	166/12	1.31	2.09	3.15	4.13	4.38	4.42	4.39
31/05/2012	210/12	1.19	1.76	2.74	3.79	4.13	4.19	4.16
29/06/2012	248/12	1.20	1.84	2.83	3.79	4.11	4.19	4.16
31/07/2012	292/12	1.01	1.57	2.58	3.60	3.97	4.07	4.05
31/08/2012	336/12	1.07	1.62	2.61	3.62	4.05	4.14	4.11
28//09/2012	376/12	1.15	1.67	2.64	3.71	4.12	4.20	4.14
	Low	1.17	1.52	2.52	3.16	3.57	3.81	3.94
	Average	1.41	1.80	2.81	3.43	3.81	4.03	4.15
	High	1.69	2.15	3.28	3.92	4.23	4.39	4.45

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	1.56	2.14	3.29	3.91	4.23	4.38
30/04/2012	166/12	1.60	2.15	3.19	3.81	4.14	4.31
31/05/2012	210/12	1.37	1.81	2.78	3.41	3.81	4.03
29/06/2012	248/12	1.41	1.89	2.87	3.45	3.80	4.01
31/07/2012	292/12	1.17	1.63	2.62	3.32	3.61	3.85
31/08/2012	336/12	1.22	1.67	2.65	3.25	3.64	3.90
28//09/2012	376/12	1.29	1.72	2.68	3.31	3.73	3.99
	Low	1.14	1.57	2.56	3.18	3.58	3.81
	Average	1.37	1.85	2.85	3.45	3.82	4.04
	High	1.64	2.21	3.32	3.94	4.24	4.39

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Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
02/04/2012	0.59	0.60	0.62	1.49	1.50	1.52
30/04/2012	0.58	0.60	0.62	1.48	1.50	1.52
31/05/2012	0.58	0.58	0.58	1.48	1.48	1.48
29/06/2012	0.58	0.57	0.56	1.48	1.47	1.46
31/07/2012	0.56	0.54	0.49	1.46	1.44	1.39
31/08/2012	0.55	0.54	0.52	1.45	1.44	1.42
28//09/2012	0.57	0.56	0.54	1.47	1.46	1.44
Low	0.55	0.53	0.48	1.45	1.43	1.38
Average	0.578	0.5743	0.5668	1.478	1.4743	1.4668
High	0.60	0.60	0.62	1.50	1.50	1.52