AUDIT COMMITTEE

Venue:	**Town Hall, Moorgate Street, Rotherham. S60 2TH**	**Date:**	**Wednesday, 21 November 2012**
		Time:	**4.00 p.m.**

A G E N D A

1. To determine if the following matters are to be considered under the categories suggested in accordance with the Local Government Act 1972.

2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.

3. Minutes of the previous meeting held on 24th October, 2012 (copy attached) (Pages 1 - 4)

4. Risk Management and Mitigation in the Housing Revenue Account 30 Year Business Plan (report herewith) (Pages 5 - 13)

5. Localism Act Update (report herewith) (Pages 14 - 22)

6. Mid-Year Treasury Management and Prudential Indicators Monitoring Report 2012/13 (report herewith) (Pages 23 - 35)

7. External Auditors Annual Audit Letter 2011/12 (report herewith) (Pages 36 - 45)

8. External Audit Fees Letter 2012/13 (report herewith) (Pages 46 - 55)

9. Date and time of the next meeting - Wednesday, 19th December, 2012, at 4.00 p.m.

AUDIT COMMITTEE
24th October, 2012

Present:- Councillor Sangster (in the Chair); Councillors Gilding, Kaye and License.

An apology for absence was received from Councillor Sims.

P18. MINUTES OF THE PREVIOUS MEETING HELD ON 26TH SEPTEMBER, 2012

Consideration was given to the minutes of the previous meeting of the Audit Committee, held on 26th September, 2012.

Resolved:- That the minutes of the previous meeting be agreed as a correct record for signature by the Chairman.

P19. CORPORATE RISK REGISTER

Further to Minute No. 41 of the meeting of the Audit Committee held on 15th February, 2012, consideration was given to a report presented by Colin Earl, Director of Internal Audit and Asset Management, containing the Council's current corporate risk register detailing the risks associated with the Council's most significant priorities and projects and actions being taken to mitigate these risks.

The Council's key current risks continued to relate to the financial pressures faced by the Council as well as the implications of the Welfare Reforms and the Localism Act. These issues were likely to have major implications for residents and for Council services. The report summarised the management actions that were being taken to mitigate these and other risks in the register.

Further information was provided on the top inherent risks which were;-

- Managing Government budget reductions - unable to maintain key services due to budgetary limits.
- Welfare Reforms.
- Unable to deliver effective Children's Services within budget.
- Localism Act 2011 (Part 2).
- Digital Region.

Further information was requested on the risks associated with the items above and how these would be managed, especially around the Government's budget reductions and financial management of the welfare reform and the impact this would have on the demand and delivery of services.

It was also noted that the Improving Lives Select Commission had received a presentation on the problems associated with increased demand for primary school places this year and would be taking forward a piece of work on how to deal with the shortage of classrooms.

The Committee expressed its concern about the number of red risks and why they remained red when actions taken to mitigate the risks had had no or little effect, although it was acknowledged that some of the issues were beyond the

Council's control.

Reference was also made to the Digital Region and an update was provided on the current position.

In addition, it was noted that the budget had to be finalised by the 22nd February, 2013 which was quite tight given that the settlement would not have been received until December, 2012. This remained a risk as did the ICT changes required to the Council Tax Benefits system.

Further information was also sought on the risks for residents losing housing benefit as a result of a "Bedroom Tax", which was being looked into further by Neighbourhood and Adult Services and the various modelling options which showed what the impact would be, who it would affect and the potential risks associated with this.

Resolved:- (1) That the report be received and its contents noted.

(2) That the current assessment of the Council's top corporate risks be confirmed.

(3) That any further risks identified be added to the risk register.

P20. INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report presented by the Marc Bicknell, Chief Auditor, containing a summary of Internal Audit work and performance for the six months ending 30th September, 2012. The report showed that the service continued to perform at a high level across all indicators. As with many Council services, Internal Audit was diminishing in size. However, by using a risk based approach to planning and efficient management of resources, Internal Audit expected to fulfil the statutory responsibilities to give an opinion on the Council's internal control environment and to complete the work on fundamental accounting systems expected by the External Auditor for the 2012/13 financial year.

Audit findings in virtually all areas indicated that satisfactory control arrangements were in place and testing confirmed that these controls were operating effectively during the period under review. Notwithstanding this, work showed that there were opportunities to strengthen arrangements in some areas. Implementation of Internal Audit's recommendations for improvement would reduce the Council's exposure to risks.

There was only one overall inadequate opinion in one area during the period. This was related to the Community Care Direct Payments system where it was highlighted that insufficient checks were being undertaken on the usage of Direct Payments and, as a result, there was an increased risk that the Council could fail to detect instances where monies were not being used on their intended purpose. An Action Plan had been agreed with management that would be monitored closely to ensure improved procedures were implemented.

Further information was provided on the responsive work carried out during this period, which included both investigative work and requests for advice and assistance and the instance where a large amount of cash had been received by the Cashiers' Service.

The report also detailed a number of revisions to the Audit Plan, which were proposed due mainly to staff vacancies arising during the year.

Resolved:- (1) That the report be received and the performance of the Internal Audit Service during the period be noted.

(2) That the key issues arising from the work done during this period be noted.

(3) That the proposed revisions to the Audit Plan be approved.

P21. ANTI-FRAUD AND CORRUPTION ACTION PLAN

Further to Minutes Nos. 48 and 5 respectively of the meetings of the Audit Committee held on 25th April and 30th May, 2012, consideration was given to a report, presented by Colin Earl, Director of Internal Audit and Asset Management, stating that the Council had a good track record for implementing current best practice relating to anti-fraud and corruption. During the year, guidance had been issued by the Government's Department for Communities and Local Government relating to the Bribery Act, 2010 and the Audit Commission had updated its anti-fraud and corruption advice through its 'Protecting the Public Purse' document.

The Council's self-assessments against the latest guidance showed substantial compliance, whilst highlighting one or two new areas where plans and policies could be developed. The report stated that, rather than maintaining three separate action plans covering the Bribery Act guidance, Protecting the Public Purse and the Council's existing Anti-Fraud and Corruption Plan, all three be amalgamated into one action plan, a copy of which was appended to the submitted report.

Members noted that progress had been reviewed whilst amalgamating the action plans and this showed (a) good practice was being maintained in a large majority of areas, and (b) action was being taken to update the Council's plans and policies where necessary.

Resolved:- (1) That the report be received and the Council's overall good arrangements for managing the risk of fraud be noted.

(2) That the amalgamation of the three separate action plans, covering the Bribery Act guidance, 'Protecting the Public Purse' and the Council's existing Anti-Fraud and Corruption plan, into one amalgamated plan be approved.

(3) That the actions being taken to update relevant parts of the Council's arrangements for managing the risk of fraud be supported.

P22. REVIEW OF COUNCIL TAX SINGLE PERSONS DISCOUNTS

Consideration was given to a report presented by Stuart Booth, Director of Finance, describing the progress of the review of the Council Tax Single Person's Discount, being carried out in conjunction with Northgate (the Revenues software supplier to the Council) and Experian. The project was part of the Council's arrangements for managing the risk of fraud.

Members noted that, to date, 1,771 single persons' discounts had been cancelled, resulting in additional Council Tax income of over £700,000. Revised Council Tax bills have been issued requesting that relevant payments be made to bring their account up to date. This figure was subject to change due to customers who have previously not made contact now making contact which may result in the Single Person's Discount being reinstated.

Work to finalise the outcomes from the Review would continue over the next few months and a further concluding report would be submitted to the Audit Committee in due course.

It was hoped that through further work with Northgate and Experian that other savings could be realised and this would be reported upon in due course.

Resolved:- (1) That the report be received and its contents noted.

(2) That the very positive outcomes from the work being undertaken by the Council to reduce the value of incorrectly claimed Council Tax Single Person's Discount be noted.

P23. DATE AND TIME OF THE NEXT MEETING

Resolved: - That the next meeting of the Audit Committee take place on 21st November, 2012, commencing at 4.00 pm at the Town Hall.

ROTHERHAM BOROUGH COUNCIL – REPORT TO THE AUDIT COMMITTEE

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**21 November 2012**
3.	**Title:**	**Risk Management and Mitigation in the Housing Revenue Account 30 Year Business Plan**
4.	**Directorate:**	**Neighbourhoods and Adult Services**

5.0 Summary

The implementation of Housing Revenue Account (HRA) Self-Financing, from April 2012, presents the Authority with significant investment opportunities.

However, this initiative also transfers all risks from the DCLG to the Council in respect of Council houses. Changes in inflation, local rent policy, interest rates and investment and debt management decisions, will impact on the financial viability of the Business Plan. Robust, proactive management of all aspects of the Plan will be essential throughout the 30 year period. This report demonstrates how the risks identified within the Business Planning process are being managed and mitigated.

6.0 Recommendations

It is recommended that Members note the steps taken to manage and mitigate risk.

7.0 Proposals and Details

7.1 Background

The concept of the HRA 30 year Business Plan which was introduced within the Housing Revenue Account – Self Financing Regulations on the 1st April 2012.

In summary, under this arrangement, Councils were allocated a proportion of the national housing debt, and in return allowed to collect and retain all housing income. All risk was transferred to authorities, who have to utilise the income to manage debt, repair and maintain stock and estate infrastructure, and provide housing management services to ensure a sustainable business going forward.

The main drivers supporting the implementation of the Self Financing Initiative were to:

- Give local authorities the resources, incentives and flexibility they need to manage their own stock for the long term.

- Give tenants greater transparency and accountability as to how rent collected is spent on the services provided.

It is clear that the Self-Financing Initiative would:

- Require long term planning and asset management.

- Give greater flexibility to councils to make the best use of stock, and make decisions linked to local conditions and local needs.

In order to demonstrate the financial viability of this initiative, a 30 year Business Plan was drawn up to determine indicative income and expenditure for the short, medium and long term.

This report identifies the key risks which need managing in the 30 year Business Plan and outlines to members the actions which are being taken to mitigate these risks.

7.2 The HRA 30 Year Business Plan

The 30 year Business Plan has been developed by the Director of Housing and Neighbourhoods in conjunction with Financial Services.

The base data included in the model (that has been extrapolated over the 30 Year Plan) is based upon the following:-

- The current costs of delivering housing services as per the 2012/13 revenue budget.

- Current treasury management assumptions and forecasts associated with servicing the existing debt.

- The 30 year capital investment requirements of the existing stock as identified from the APEX stock condition survey.

- The Authority will work towards rent convergence by 2016/17.

Based upon a range of key assumptions which are detailed within paragraph 7.3, the base case 30 year Business Plan, as at October 2012, shows that the HRA has total surplus resources of £628m over the 30 year period, illustrating the long-term benefits of the Self-Financing Initiative.

The utilisation of these resources is critical to meet both local and national policies and to the delivery of first class housing services. Major investment decisions will be made based upon the forecasted resources available with the Plan. It is therefore imperative that the key assumptions made to formulate the Plan are based upon sound knowledge, and are robustly challenged, monitored and updated on an ongoing basis.

7.3 Key Assumptions

In order to model the base data, various key assumptions have been made which are critical to the financial viability of the Plan.

Appendix A of the report details the prevailing rates and assumptions which have been applied to the current Plan, and are summarised below together with the associated risk and mitigation.

- General Inflation. (Retail Price Index – RPI). The 2013/14 RPI assumption is 3.2% and is applied to revenue spend and capital investment, and is also taken into consideration within the rent setting process. Treasury forecasts are applied across subsequent years of the Plan, as shown at Appendix A.

  Risk: An increase of 1% in the inflation rate assumption would increase the surplus resources available at year 30 by £169m. This is because the rent increase assumption tracks RPI inflation, and annual income exceeds expenditure in the Plan. Conversely, a reduction of 1% in the inflation rate assumption would reduce surplus resources by £146m.

  Mitigation: Budgets are set utilising the most up-to-date information available through Treasury forecasts. Future inflation forecasts are then tracked through the financial year. The model also allows differential inflation rates to be applied, for example to capital or salary costs.

- Interest Rates – Rates applied in 2012/13 are 4.71% rising to 5% up to 2016/17 and 6% thereafter and are applied to the HRA outstanding debt of £304m.

  Risk: An increase of 0.5% in the interest rate assumption would reduce the surplus resources available at year 30 by £46m.

  Mitigation: Prudent assumptions have been made on borrowing and investment rates based upon current market conditions and Treasury forecasts. Loans will be refinanced when market conditions allow.

  In addition, historic high interest rate loans within the current debt portfolio when they expire and are repaid, will lead to a reduction in debt charges within the Business Plan, which will increase the resources available and/or generate borrowing headroom for future investment.

- Rent Convergence. The Business Plan assumption is that the Authority will work towards rent convergence in 2015/16 in line with Government expectations (with actual convergence being achieved in 2016/17) with future rent increases assumed at 0.5% above RPI. This is the key assumption to the viability or otherwise of the Business Plan.

  Risk: An assumption of rent increases of 0.5% below RPI following convergence, reduces the surplus resources available at year 30 by £411m to £217m. This would have a major impact on the Council's plan for future housing investment.

  A failure to achieve convergence by the required date could lead to repercussions from central government.

  Mitigation: Both the national and local context is set out within the Annual Rent Setting Report presented to Cabinet. The HRA Business Plan is updated to reflect the yearly rent increase following approval.

- Capital Investment Requirements. The Business Plan assumption for the 30 year investment requirements on current stock, to maintain them in line with the Decent Homes Standard, is informed from the APEX stock condition survey.

  Risk: Any inaccurate, incomplete, duplicate or missing property or survey data, will have an impact on the viability of the Business Plan.

  Mitigation: An extensive data cleanse and detailed survey exercise is currently ongoing to ensure that the investment requirements are up to date and the cost information incorporated into the Asset Management strategy is robust. The Business Plan can then be effectively managed to ensure that future investment needs can be addressed, with the certainty that the existing stock is being adequately maintained.

7.4 National Issues

In addition to the specific risks identified within paragraph 7.3 above, there are also several major policy issues which may have a bearing on the Business Plan.

- Right to Buy (RTB) receipts - The discount rate cap on RTBs has recently increased to £75,000 up to a maximum of 60% for houses and 70% for flats, of the property's value. It is anticipated that, as a result, there will be an increase in the number of Council properties lost through the RTB process. This will lead to a reduction in rental income within the Business Plan.

  Risk: An increase of 100 RTBs per year will result in a reduction in surplus resources at year 30 of the Business Plan of £171m.

  Mitigation: This initiative went live from April 2012, and bearing in mind that most RTBs take an average of 6 months to complete, it has been difficult to predict the take up rate. Therefore a prudent assumption of 100 RTBs per year for 5 years has been modelled into the Business Plan, reducing to 23 a year thereafter, in line with previous sales.

  Work is still ongoing to assess the likely impact of this initiative; a more accurate forecast of sales should be possible by Christmas, when actual completions can be measured.

- Welfare Reform - It is anticipated that the introduction of Welfare Reform from November 2013 and the Housing Benefit Reform from April 2013 will have a bearing upon the HRA Business Plan, as around 14,300 tenants will move from Housing Benefit onto direct payments, increasing the total rents to be collected by in the region of £50m.

  Risk: The move towards direct payment, and the removal or capping of other payments through Welfare Reform will, most likely, lead to an increase in housing debt as tenants are unable to pay the full rent due.

  Mitigation: Work is currently ongoing to assess the likely impact on rent collection and the likely increase in bad debts under Welfare Reform. In acknowledgement of the likely impact, the HRA provision for debts has been increased by £100k (0.9%) which is the equivalent to an increase in arrears of £1m.

Neighbourhoods and Adult Services is a member of the Corporate Working Group reviewing the Authority-wide impact of Welfare Reform, which is considering various initiatives to limit the impact upon both customers and the Council.

7.5 Monitoring and Modelling

Key assumptions are embedded into the Business Plan on an annual basis with intrinsic links to the budget setting process.

In addition, the Plan is reviewed on a quarterly basis in line with the quarterly budget monitoring framework to Cabinet Member for both revenue and capital.

All new initiatives within the Directorate are considered in the light of any financial impact on the Business Plan; this includes a current exercise to consider the provision of new homes through resources generated within the Business Plan.

A new Business Plan model has recently been purchased which provides greater flexibility for modelling different scenarios.

7.6 Supporting Strategies

A long term Asset Management Strategy is currently being developed to provide a detailed programme of planned additional investment works which will dovetail with future repairs and maintenance needs.

The Council's Treasury Management Strategy provides a framework for managing the debt and investments over the term of the Business Plan.

8.0 Finance

Covered in Part 7 above**.**

9.0 Risks and Uncertainties

Covered in Part 7 above

10.0 Policy and Performance Agenda Implications

The Self-Financing Initiative supports the effective use of Council assets and managing them to best effect. It contributes to the sustainable neighbourhoods agenda by addressing future investment needs and will help deliver a better quality of affordable housing in the community. This links to the key corporate strategic themes of:-

- Rotherham Proud
- Rotherham Safe
- Rotherham Active
- Fairness
- Sustainable Development

These key themes are reflected within the Individual Wellbeing and Healthy Communities outcome framework, as follows:

- Improved Quality of Life – by creating opportunities for an improved quality of life (Objective 6).
- Economic Wellbeing – providing affordable, high quality housing to meet identified needs and create sustainable neighbourhoods.
- Safe – by creating neighbourhoods that are clean, green, good quality homes.

The initiative links to the key investment theme in our Local Investment Plan.

- Climate Change – introducing a range of measures to address issues such as fuel poverty, reduce household energy consumption and minimise environmental impact.

These key investment themes align with the Council's corporate priorities of:-

- Making sure that no community is left behind.
- Helping to create safe and healthy communities.
- Ensuring care and protection are available for those people who need it most.
- Providing quality education, ensuring people have the opportunity to improve their skills, learn and get a job.
- Improving the environment.

11.0 Background Papers and Consultation

Report Authors

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Appendix A

HRA Self-Financing Business Plan Model Key Assumptions

Key Input	Assumption Used	Data Source	Outputs	Comments
Inflation				
General RPI	2013/14 – 3.2% 2014/15 – 2.6% 2015/16 – 2.9% 2016/17 – 3.3% 2017 on – 2.5%	Treasury Forecasts – February 2012	Capital / Revenue – Expenditure Items	Differential RPI increases can be applied to individual items.
Rent Calculations / Stock / Receipts				
Rent RPI / Formula Rent Increases	RPI + 0.5%	Current Formula Rent Increases	Rental Income	Key factor in determining surplus available for investment.
Stock	April 12 – 20,861		Rental Income Capital / Revenue – Expenditure Items	Model adjusts for new build / disposal assumptions
Voids / Bad Debts	Voids – 2% Bad Debts – 2012/13 - 0.86% 2013/14 on - 0.95%	Voids – DCLG model assumption. Bad Debts– Current RMBC provision	Rental Income	
Right to Buy Receipts	No receipts assumed.			Assumed 100 RTBs – 2012 – 17 23 RTB 2017 onwards
Working Balances / Debt Allocation / Subsidy CFR				
HRA Opening Balance	£8,327,386			As at 1st April 2012
Minimum HRA Balance	£3,500,000 Indexed			
MRR Opening Balance	£2,656,470			As at 1st April 2012 Used to Fund Capital Spend
Debt Cap	£336.623m	DCLG		
Current HRA Debt	£303.959m			As at 1st April 2012

Key Input	Assumption Used	Data Source	Outputs	Comments
<u>Revenue Costs</u>				
Annual Depreciation Charge	£18,815,210 – Indexed	PwC (DCLG) Assumption	Charge to HRA – MRR Capital Funding	2012/13 – Based on PwC (DCLG) model
Revenue Repairs Spend	£17,438,433 – 2012/13	2012/13 Budget	HRA Revenue Expenditure	
General Management Charges	£19,365,334 Indexed	2012/13 Budget	HRA Revenue Expenditure	
<u>Capital Costs</u>				
Capital Repairs on existing stock	2012/13 - £20.95m 2013/14 - £27.05m 2014/15 - £25.90m 2015/16 - £25.86m 2016/17 - £26.21m (unindexed values)	2012/13 Capital Budget. 30 Year Capital Investment Profile	Capital Expenditure	Information based on 30 year investment profile, including back-log repairs. Lifecycles based on decent homes standard. Spend smoothed out.
<u>Interest Rates</u>				
CRI	2012/13 - 4.71% 2013 – 2017 – 5% 2017 onwards – 6%	Derek Gaffney – Chief Accountant	HRA Revenue Expenditure	

Agenda Item 5

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	Audit Committee
2.	**Date:**	21st November 2012
3.	**Title:**	Localism Act Update
4.	**Directorate:**	Resources

5. Summary

This report provides an update, detailing the commencement of the Act to date; highlighting key issues arising from specific provisions in the Act; and the process of engagement of members in addressing the issues identified and determining ways forward for RMBC.

6. Recommendations

That the Committee consider relevant issues arising for the Council from implementation of the Localiam Act 2011, in particular the following:

- **(i) Council Tax referendum trigger as part of the broader changes to local government finance**
- **(ii) Preferred approach to consider "right to challenge" submissions**
- **(iii) Neighbourhood planning in the context of the Council's local plan**
- **(iv) Approaches to tenure reform as part of developing the Council's Tenancy Strategy**
- **(v) Any opportunities arising from "assets of community value"**

7. Proposals and Details

Following Royal Assent to the Act on November 15th 2011, the provisions are being commenced over a period of time. Most of the provisions have now been brought into force or dates have been announced for commencement. However, where provisions have been made enabling the government to provide further detail in Regulations, in some cases no Regulations have yet been made.

Given the cross-cutting nature of this Act, the Council has taken a co-ordinated approach to assessing the issues arising whilst the Bill was passing through parliament. This has involved a series of reports and members seminars to highlight the provisions and enable early discussions, including with M3 managers, parish councils and the voluntary & community sector.

Since the passing of the Act, there has continued to be a whole Council approach, facilitating detailed reports and briefings to be made including:

- Detailed reports to Cabinet Members on the issues arising within their portfolio;
- Reports to Standards Committee and Rotherham Audit Chairs;
- Report to Cabinet;
- Further reports to Scrutiny (Overview & Scrutiny Management Board);`
- A further programme of members' seminars, this time each one focussing on part of the Act; and
- Information sessions for managers.

The four key parts of the Act that require the attention of the Council at this stage are set out below.

Council Tax

The Act provides that each year, as part of announcing the local government provisional finance settlement the Government will set out principles and calculations that will determine an amount of Council Tax to be raised by each authority, above which the increase will be regarded to be "excessive". The Government will be able to apply different principles to different classes of authority. Where an authority proposes to adopt a budget that would require an "excessive" increase in Council Tax, that increase would require approval in a referendum. Where an "excessive" increase is proposed by a "major precepting authority (Fire; Police); or a local precepting authority (parish council) it would be for the Council as the billing authority to make arrangements for the referendum. In all cases, a reserve budget meeting the Government's principles and calculations would need to be in place to be implemented should a referendum reject an "excessive" increase in Council Tax. Regulations will make provisions about the holding of referendums.

Whilst the Council accepted the government's financial incentive in setting the last two budgets to freeze Council Tax, it is unlikely that any freeze incentives will be offered in future years. For the last budget setting the government announced a 3.5% referendum trigger for the Council and 4% for major precepting authorities. No trigger threshold was set for parish councils increases last year and it is unclear when the government will apply this to parishes.

The latest government announcement is that a threshold of 2% will be set in the coming budget round. It should also be recognised that the proposals for Local Council Tax Reduction Schemes to replace Council Tax Benefit will reduce the Council Tax Base and consequently the yield of any percentage increase in Council Tax.

The Council will need to be aware of the trigger percentage for a referendum set by the government when setting the Council Tax level next year.

<u>Community Right to Challenge</u>

CRC (Community Right to Challenge) provides that people will be able to express an interest in taking over the running of a council service e.g. voluntary and community organisations; charities; parish councils etc. The community right to challenge applies to all relevant services. A relevant service is a service provided by or on behalf of a relevant authority in the exercise of its functions in relation to England, except services which are excluded (listed below).

Those services excluded from the CRC

- Relevant services commissioned in conjunction with one or more health services or commissioned by an NHS body on behalf of the Council are excluded until 1st April 2014.
- A relevant service commissioned or provided by a relevant authority in respect of a named person with complex individual health or social care needs.
- Where relevant children's centre services have been commissioned jointly by a local authority and an NHS body or by the NHS on behalf of the local authority, these services will be excluded from the right temporarily until April 2014.
- Services which are commissioned and managed by individuals or their representatives using direct payments

The Community Right to Challenge provisions of the Localism Act 2011 commenced on 27th June 2012.

RMBC Approach to CRC

The Commissioning and Procurement Team have been preparing a summary from the Forward Procurement Plan/Contracts Register of:

- All existing contracted services,
- The nature of the business commissioned/procured,
- The expiry date of the contract.

This forms the key data set to allow potential suppliers/ providers to express interest in delivering future services for the Council.

The Commissioning and Procurement Team is working with Council Directorates to make sure that the central database is updated regularly with accurate, transparent, and robust information. A checklist is being produced for officers who are approached with Expressions of Interest from suppliers/providers, to make sure we are complying with the Act.

A published "Future Contracts Opportunities" list and very clear procurement pathways for interested providers will satisfy some of the conditions imposed on Councils by the Act – and will hopefully avoid inappropriate Expressions of Interest's coming through to the Council, needing responses within mandatory timeframes.

A preferred way forward would be to open up for expressions of interest in a 3 month period rather than to a strict timetable which relates to the commissioning process as this would create serious administrative difficulties.

Some local authorities have adopted a wait and see approach, while others are publishing some information on their procurement timetables with a caveat that they will consider all Expression of Interests as contracts are renewed. We intend to continue to publicise the providers/suppliers with whom we have a formal contracted service with basic information around value of contract, commencement and expiry dates, and we will make sure this is accurate and updated regularly. This will allow potential providers to bid for services as they are renewed.

<u>Development of Neighbourhood Plans</u>

Parishes and neighbourhood forums can use neighbourhood planning to:

- develop a shared vision for their neighbourhood
- set planning policies for the development and use of land
- give planning permission through Neighbourhood Development Orders and Community Right to Build Orders

It should be noted that the purpose of neighbourhood planning is to secure new development through reducing the burdens of the full planning process.

There is a risk that neighbourhood plans could run counter to our emerging Local Plan strategy and preferred locations for growth. As any parish could commence a neighbourhood plan now, we could end up in a "race to the finish" in terms of completing our Local Plan to provide the overarching plan that neighbourhood plans have to conform to. Our decisions on when to hold a referendum could be key if this situation occurs.

Ultimately, a corporate decision would be required on priorities if one or more neighbourhood plans are commenced - if we wish (or are required) to support and finance these then we would have to divert resources accordingly. As the pressure would fall on Planning, the obvious risk is delay to the Local Plan.

The government have announced that over the next three years there will be £30m of funding available to contribute to the costs of communities preparing submissions for Neighbourhood Development Orders. The resources are available for bids from community organisations, not local authorities. Pilot areas have demonstrated that the cost of producing such an Order to be at least £20k.

Community Right to Build

A Community Right to Build Order is a type of neighbourhood plan that allows certain community organisations along with a developer to bring forward smaller-scale development on a specific site, without the need for planning permission. This gives communities the freedom to develop, for instance, small-scale housing and other facilities that they want. In order to bring forward a Community Right to Build Order, members of a community will need to form a formal organisation with the purpose of furthering the interests of the local community. If more than 50 per cent of people in the defined neighbourhood support a Community Right to Build Order in a local referendum, then the local planning authority must grant permission.

The government have announced that over the next three years there will be £17m of funding available to contribute to the costs of communities preparing submissions for Community Right to Build Orders. Under the Localism Act's Community Right to Build, communities can grant planning permission for new buildings they want to see go ahead, sidestepping the normal planning application process.

The neighbourhood planning processes require Plans or Orders to be developed on either parish council boundaries or defined neighbourhood boundaries that would need to be agreed locally. A referendum will need to be held to approve the Development Plans and Orders. A person will be entitlement to vote in a referendum if they are a local government elector for the parish or defined neighbourhood, however, where there is a designated business area in the area covered by the proposed Neighbourhood Plan or Order, there will have to be an additional referendum in which business rate payers will be entitled to vote.

<u>**Housing**</u>

- **Allocations-** we can set our own policies/criteria in respect of who should qualify to go on the Housing Register. i.e. Allocate on Need. RMBC carrying out consultation on this.
- **Tenure Reform-** will provide for flexible tenancies, no more secure tenancies that people are familiar with. The changes will only apply to new tenants. Currently out to consultation locally before deciding whether to implement it

The Council will be required to adopt a new Tenancy Strategy by January 2013 to incorporate the changes. There will also be changes to dealing with homeless people where the homeless duty will have been discharged by offering housing for homeless people in private sector accommodation, this being classed as a "reasonable offer" in future. The changed homelessness provisions commenced on 9th November.

Changes to a new local housing revenue account became effective from April 2012 along with the requirement for a 30 year investment strategy.

Assets of Community Value

We will have to maintain a list of assets of community value, which could be buildings or land. Assets need not belong to the Council, but could be a pub or post office for example. Regulations will set out what qualifies or otherwise for inclusion in the list. Parish councils and community and voluntary organisations with a local connection will be able to nominate land and buildings to be included in the list. Regulations will establish the definition of "local connection". Owners will be able to appeal against inclusion in the list. Assets will be included on the list for five years and may be removed after that. There is currently no commencement date for these provisions. There is a risk of confusion between these provisions of the Act and local policies relating to asset transfer.

Essentially, this will create a new administrative burden for the Council. The extent of the burden will be commensurate with the number of nominations to the list received, together with the number and complexity of appeals from owners and the number of assets offered for sale for which community organisations would have the right to buy.

These provisions commenced on 21st September. Arrangements are being made to receive nominations of assets to be included on the list. Notwithstanding that there is no requirement for the Council to be pro-active, there may be opportunities to support communities in bringing assets into productive use arising from these new provisions.

8. Finance

There are financial issues arising from the Act including the potential for "new burdens" not previously identified in government impact assessments, and some for provisions of the Act to have been potentially misrepresented. The latter includes the impression given that local authorities have been freed-up to give business rates discounts, whereas state aid rules apply and the requirement to have regard to the interests of council tax payers, who would effectively have to meet the costs of any discounts given.

The greater potential financial issue at this stage relates to neighbourhood planning and covering the costs of inspection and referendum. Notwithstanding that the Government has made provision to provide financial support for neighbourhood planning, debate during the passage of the Bill specifically covered the issue of the recovery of costs by local authorities and there being no new financial burden. Consequently, the Act enables the government to make Regulations to for local authorities to levy charges and the neighbourhood planning impact assessment identifies that local authorities will recover costs from neighbourhood plan promoters. Debate on the Bill suggested that the costs of inspection and referendum would be met by developers when the new development provided for by the Neighbourhood Development Order is commenced. However, no Regulations have been made providing for levying charges, and advice recently received by the Council from civil servants suggests that the Council will have to meet all the costs, an apparent direct contradiction to assurances given to Parliament in the passing of the Bill.

9. Risks and Uncertainties

Many of the provisions of the Act have now been implemented. The main areas of risk remain those provisions where it is not possible to fully assess impact. These are mainly around planning; community right to challenge; and assets of community value. Some coverage in the media, including government statements may confuse the provisions of this Act with the provisions of the Local Government Finance Act 2012, especially around statements covering business rates.

The programme of reporting will mitigate any risks arising from the uncertainties by ensuring that fully detailed reports for decision are made in a timely manner. The overall risks arising are monitored as part of the Council's corporate risk register.

10. Policy and Performance Agenda Implications

The Act should not be seen in policy isolation from other government legislation that impact on the Council, especially around changes in education, health and welfare reform; and policy development for social care. New legislation introduced in the current session of parliament including the Enterprise and Regulatory Reform Bill and Growth and Infrastructure Bill will further impact on the Council's planning functions. The Local Government Finance Act 2012 (c. 17), which received Royal Assent on 31st October will have major implications for this broader policy agenda.

11. Background Papers and Consultation

Following previous reports to Cabinet and scrutiny, it was resolved that a series of seminars and workshops for members; parish councils and the voluntary and community sector should be held to enable them to consider and comment on specific aspects of the Act. Further workshops will be held covering further developments in the implementation of the provisions of the Act, and reports made as appropriate.

Background papers

Localism Act 2011 (c. 20)

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Matthew Gladstone, Director of Commissioning, Policy and Performance, Resources Directorate, ext 22791, matthew.gladstone@rotherham.gov.uk

RMBC Localism Act Lead Contacts:

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Communities & VCS:	Asim Munir
Commissioning:	Helen Leadley
Planning:	Andy Duncan
Housing:	Wendy Foster
Assets:	David Stimpson

No	Risk	Pre Controls 1-25	Lead officer Key Actions/Updates	Post Controls 1 -25	Links to Corporate Priorities
0012	Local Government Reform (LGR) implementation Plan – Failure to implement reforms	**16**	**Andrew Bedford** • All current statutory requirements are being met • Many provisions of the Localism Act are "enabling legislation". Information and discussion around the provisions continues through Member development programme and sessions for relevant officers. • Reports on Planning and Housing have been considered by Members • Impact for "Commissioning" is being addressed following commencement of Community Right to Challenge • Assets of Community Value provisions commenced in October. Arrangements are being put in place to receive any nominations in the first instance. • Police Reform & Social Responsibility Act - Rotherham leading on Policing & Crime	**6**	**All Priorities**

			Panel. Issues for community safety will be assessed following election of a Police Commissioner in the Autumn 2012 • Health & Social Care Act transfer of public health to the Council • Welfare Reform Act has many implications arising from benefit changes from April 2013. There is a corporate and partnership working approach to addressing the changes. • Local Government Finance Act received Royal Assent on 31st October 2012. Commencement date of April 2013 for most provisions. LCTRS out to consultation. • Enterprise and Regulatory Reform Bill & Growth and Infrastructure Bill will both have implications for the Council's planning functions, which will be assessed as the Bills pass through parliament.		

Agenda Item 6

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**21st November 2012**
3.	**Title:**	**Mid Year Treasury Management and Prudential Indicators Monitoring Report 2012/13**
4.	**Directorate:**	**Resources**

5. Summary

Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.

This report meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).

The report is structured to highlight the key changes to the Council's capital activity (the PIs), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

6. Recommendations

The Audit Committee is asked to:

1. **Note the report and the treasury activity; and**
2. **Refer the report to Cabinet to consider recommending the Council approve changes to the prudential indicators**.

7. Proposals and Details

The Strategic Director of Resources has delegated authority to carry out treasury management activities on behalf of the Council and this report is produced in order to comply with the CIPFA Code of Practice in respect of Treasury Management in Local Authorities and the "Prudential Code".

8. Finance

Treasury Management forms an integral part of the Council's overall financial arrangements.

The assumptions supporting the capital financing budget for 2012/13 and for future years covered by the Council's MTFS were reviewed in light of economic and financial conditions and the future years' capital programme.

The Treasury Management and Investment Strategy is not forecast to have any further revenue consequences other than those identified and planned for in both the Council's 2012/13 Revenue Budget and approved MTFS.

9. Risks and Uncertainties

Regular monitoring will ensure that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

10. Policy and Performance Agenda Implications

Effective treasury management will assist in delivering the Council's policy and performance agenda.

11. Background Papers and Consultation

CIPFA Code of Practice for Treasury Management in Local Authorities
Local Government Act 2003
CIPFA "Prudential Code"

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Appendix

Mid Year Prudential Indicators and Treasury Management Monitoring Report

1. Introduction and Background to the Report

1.1 Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report required previously.

1.2 This report meets that revised requirement. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and PIs were previously reported to Audit Committee and Cabinet in February 2012 and approved by Council on 7 March 2012.

1.3 The Council's revised capital expenditure plans (Section 2.2 of this report) and the impact of these revised plans on its financing are set out in Section 2.3. The Council's capital spend plans provide a framework for the subsequent treasury management activity. Section 3 onwards sets out the impact of the revised plans on the Council's treasury management indicators.

1.4 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the CLG Investment Guidance. These state that Members receive and adequately scrutinise the treasury management service.

1.5 The underlying economic and financial environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with high quality counterparties. The downside of such a policy is that investment returns remain low.

1.6 The Strategic Director of Resources can report that the basis of the treasury management strategy, the investment strategy and the PIs are not materially changed from that set out in the approved Treasury Management Strategy (March 2012).

2. Key Prudential Indicators

2.1. This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the PIs and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

2.2 **Capital Expenditure (PI)**

2.2.1 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The revised estimate reflects the latest position in the 2012/13 capital monitoring report presented to Cabinet on 17 October 2012.

Capital Expenditure by Service	2012/13 Original Estimate £m	2012/13 Revised Estimate £m
Children & Young People's Services	18.220	21.186
Environmental & Development Services	17.442	18.624
Neighbourhoods & Adult Services (including the HRA)	24.956	25.426
Resources*	2.795	10.779
Total	63.413	76.015

* - revised estimate includes the Community Stadium Development loan facility (£5m)

2.3 **Impact of Capital Expenditure Plans**

Changes to the Financing of the Capital Programme

2.3.1 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the expected financing arrangements of this capital expenditure.

Capital Expenditure	2012/13 Original Estimate £m	2012/13 Revised Estimate £m
Total spend	63.413	76.015
Financed by:		
Capital receipts	1.439	1.890
Capital grants, capital contributions & other sources of capital funding	55.402	56.939
Borrowing Need	6.572	17.186
Total Financing	**63.413**	**76.015**
Supported Borrowing	0.306	0.210
Unsupported Borrowing	6.266	16.976
Borrowing Need	**6.572**	**17.186**

The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

2.3.2 As reported to Audit Committee in September 2012 actual expenditure financed by borrowing in 2011/12 was £2m less than anticipated. The increase in borrowing need for 2012/13 reflects the re-profiling of projects within the approved capital programme together with new approvals (e.g. the Community Stadium Development loan facility of £5m).

Changes to the Capital Financing Requirement (PI), External Debt and the Operational Boundary (PI)

2.3.3 The table below shows the CFR, which is the underlying external need to borrow for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary which was set at the beginning of the financial year at £672.666m.

Prudential Indicators – Capital Financing Requirement & External Debt / the Operational Boundary

2.3.4 In addition to showing the underlying need to borrow, the Council's CFR has since 2009/10, also included other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets. No borrowing is actually required against these schemes as a borrowing facility is already included in the contract. The estimate for 2012/13 has been revised to incorporate the effect of changes in the borrowing need from such arrangements.

RMBC	2012/13 Original Estimate £m	Current Position £m	2012/13 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR – Non Housing	322.513		330.967
CFR – Housing	303.979		303.959
Total CFR excluding PFI, finance leases and similar arrangements	626.492		634.926
Net movement in CFR	-5,357		7,506
Total CFR excluding PFI, finance leases and similar arrangements	626.492		634,926
Cumulative adjustment for PFI, finance leases and similar arrangements	139.958		129.338
Total CFR including PFI, finance leases and similar arrangements	766.450		764.264
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	526.431	489.572	496.908
Other long term liabilities*	139.958	130.340	129.338
Total Debt 31 March	666.389	619.912	626.246

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Former SYCC	2012/13 Original Estimate £m	Current Position £m	2012/13 Revised Estimate £m
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	96.412	96.412	96.412
Other long term liabilities	0	0	0
Total Debt 31 March	96.412	96.412	96.412

3. Limits to Borrowing Activity

3.1 The first key control over the treasury activity is a PI to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent to do so.

RMBC	2012/13 Original Estimate £m	Current Position £m	2012/13 Revised Estimate £m
Gross Borrowing	526.431	489.572	496.908
Plus Other Long Term liabilities*	139.958	130.340	129.338
Less Investments	30.000	22.150	20.000
Net Borrowing	636.389	597.762	606.246
CFR*	766.450	761.513	764.264

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

3.2 The Strategic Director of Resources reports that no difficulties are envisaged for the current or future years in complying with this PI.

3.3 A further PI controls the overall level of borrowing. This is the Authorised Limit which 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 in the longer term. 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.

Authorised limit for external debt (RMBC)	2012/13 Original Indicator £m	Current Position £m	2012/13 Revised Indicator £m
Borrowing	638.447	489.572	644.175
Other long term liabilities*	139.958	130.340	129.338
Total	778.405	619.912	773.513

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

Authorised limit for external debt (Former SYCC)	2012/13 Original Indicator £m	Current Position £m	2012/13 Revised Indicator £m
Borrowing	100.000	96.412	100.000
Other long term liabilities*	0	0	0
Total	100.000	96.412	100.000

4. Treasury Strategy 2012/13 – 2014/15

4.1 Debt Activity during 2012/13

4.1.1 The expected borrowing need is set out below:

RMBC	2012/13 Original Estimate £m	Current Position £m	2012/13 Revised Estimate £m
CFR	766.450	761.513	764.264
Less Other Long Term Liabilities*	139.958	130.340	129.338
Net Adjusted CFR (y/e position)	626.492	631.173	634,926
Borrowed at 31/10/12	480.472	489.572	489.572
Under borrowing at 31/10/12	146.020	141.601	145.354
Borrowed at 31/10/12	480.472		489.572
Estimated to 31/03/13	45.959		7.336
Total Borrowing	526.431		496.908
Under borrowing at 31/03/13	100.061		138.018

* - Includes on balance sheet PFI schemes, finance leases and similar arrangements, etc.

4.1.2 The Council is currently under-borrowed. The delay in borrowing reduces the cost of carrying the borrowed monies when yields on investments are low relative to borrowing rates. There is also an interest rate risk, as longer term borrowing rates may rise, but this position is being closely monitored and the overall position carefully managed.

4.1.3 During the seven months to 31 October 2012 the Council has borrowed the following amounts:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£2,800,000	Fixed rate	3.22%	10 years
PWLB	£1,300,000	Fixed rate	1.89%	10 years
Siemens	£10,000,000	Fixed rate	3.14%	15 years
Siemens	£10,000,000	Fixed rate	3.22%	10 years

4.1.4 During the seven months to 31 October 2012, the Council has repaid the following amounts:

Lender	Principal	Type	Interest Rate
PWLB	£5,000,000	Fixed rate	4.03%
PWLB	£1,000,000	Fixed rate (EIP)	3.46%
PWLB Annuity	£68,284	Annual repayments	Various

The PWLB loan of £5m was repaid in April 2012 on maturity.

The EIP loan is for £20m which is being repaid in equal half yearly instalments of £1m over its 10 year term.

4.1.5 There has been no restructuring or early repayment of existing debt.

5. <u>Investment Strategy 2012/13 – 2014/15</u>

5.1 **Key Objectives** – The primary objective of the Council's investment strategy is the safeguarding the repayment of the principal and interest of its investments on time – the investment return being a secondary objective. The current difficult economic and financial climate has heightened the Council's over-riding risk consideration with regard to "Counterparty Risk". As a result of these underlying market concerns officers continue to implement an operational investment strategy which further tightens the controls already in place in the approved investment strategy.

5.2 **Current Investment Position** - The Council held £22.15m of investments at 31 October 2012 (excluding Icelandic Banks), and the constituent parts of the investment position are:

Sector	Country	Up to 1 year £m	1 - 2 years £m	2 – 3 years £m
Banks	UK	0	0	0
DMO	UK	22.15	0	0
Local Authorities	UK	0	0	0
Total		22.15	0	0

5.3 **Risk Benchmarking –** A regulatory development 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.

The following reports the current position against the benchmarks.

5.3.1 **Security –** The Council monitors its investments against historic levels of default by continually assessing these against the minimum criteria used in the investment strategy. The Council's approach to risk, the choice of counterparty criteria and length of investment ensures any risk of default is minimal when viewed against these historic default levels.

5.3.2 **Liquidity** – In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- A Bank overdraft facility of £10m
- Liquid short-term deposits of at least £3m available within a week's notice.

The Strategic Director of Resources can report that liquidity arrangements were adequate during the year to date.

5.3.3 **Yield –** a local measure for investment yield benchmark is internal returns above the 7 day LIBID rate

The Strategic Director of Resources can report that the return to date averages 0.25%, against a 7 day LIBID to end October 2012 of 0.42%. This is reflective of the Council's current approach to risk whereby security has been maximised by using the Debt Management Office and other Local Authorities as the principal investment counterparties.

6. Revisions to the Investment Strategy

6.1 The counterparty criteria are continually under regular review but in the light of the current market conditions no recommendations are being put to Members to revise the Investment Strategy.

7. Treasury Management Prudential Indicators

7.1 **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

	2012/13 Original Indicator %	2012/13 Revised Indicator %
Non-HRA	9.74	8.89
HRA	18.81	19.45

7.2 The revised non HRA indicator reflects the impact of borrowing being at rates less than originally anticipated for 2012/13. The HRA indicator has increased slightly due to the final HRA revenue budget being less than that assumed in the original indicator.

7.3 **Prudential indicator limits based on debt net of investments**

- **Upper Limits On Fixed Rate Exposure** – This indicator covers a maximum limit on fixed interest rates.
- **Upper Limits On Variable Rate Exposure** – Similar to the previous indicator this identifies a maximum limit for variable interest rates based upon the debt position net of investments.

RMBC	2012/13 Original Indicator	Current Position	2012/13 Revised Indicator
Prudential indicator limits based on debt net of investments			
Limits on fixed interest rates based on net debt	100%	75.18%	100%
Limits on variable interest rates based on net debt	30%	24.82%	30%

7.4 **Maturity Structures Of Borrowing –** These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

RMBC	2012/13 Original Indicator		Current Position	2012/13 Revised Indicator	
	Lower	Upper		Lower	Upper
Maturity Structure of fixed borrowing					
Under 12 months	0%	35%	0.29%	0%	35%
12 months to 2 years	0%	35%	0.57%	0%	35%
2 years to 5 years	0%	40%	13.78%	0%	40%
5 years to 10 years	0%	40%	14.43%	0%	40%
10 years to 20 years	0%	45%	15.15%	0%	45%
20 years to 30 years	0%	50%	9.38%	0%	50%
30 years to 40 years	0%	50%	2.75%	0%	50%
40 years to 50 years	0%	55%	21.70%	0%	55%
50 years and above	0%	60%	21.95%	0%	60%

The former SYCC account is due to be wound up by the end of 2020/21 and the maturity structure is now largely fixed as the need and indeed opportunities to re-finance within the remaining 10 years will be limited. As a result future limits are currently set in line with the on-going maturity profile.

Former SYCC	2012/13 Original Indicator		Current Position	2012/13 Revised Indicator	
	Lower	Upper		Lower	Upper
Maturity Structure of fixed borrowing					
Under 12 months	0%	50%	0%	0%	50%
12 months to 2 years	0%	70%	0%	0%	70%
2 years to 5 years	0%	100%	20.13%	0%	100%
5 years to 10 years	0%	100%	79.87%	0%	100%

7.5 **Total Principal Funds Invested –** These limits are set to reduce the need for the early sale of an investment, and show limits to be placed on investments with final maturities beyond each year-end.

The Council currently has no sums invested for periods exceeding 364 days due to market conditions. To allow for any changes in those conditions the indicator has been left unchanged. The above also excludes any Icelandic investments that are due to be recovered after more than 364 days.

RMBC	2012/13 Original Indicator £m	Current Position £m	2012/13 Revised Indicator £m
Maximum principal sums invested > 364 days	10	0	10
Comprising			
Cash deposits	10	0	10

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**21st November, 2012**
3.	**Title:**	**External Auditor's Annual Audit Letter 2011/12**
4.	**Directorate:**	**Resources**

5. Summary

The Annual Audit Letter (AAL) 2011/12 summarises the external audit work in relation to the 2011/12 audit plan and highlights the findings in relation to the following:

- Audit of accounts 2011/12
- Value For money Conclusion
- Other Reviews completed.

A copy of their AAL is attached to this report.

6. Recommendations

That the Audit Committee notes the very positive Annual Audit Letter (AAL) presented to the Council by its external auditors, KPMG LLP.

7. Proposals and Details

The purpose of the Annual Audit Letter (AAL) is to communicate to the Council and key external stakeholders, including members of the public, in a clear and concise manner, the key issues arising from the audit which the external auditor considers should be brought to the attention of the Council.

The Annual Audit Letter (AAL) 2011/12 attached as Appendix 1 is KPMG's summary of audit work for the 2011/12 year.

It briefly summarises of the results of the external auditor's work which have previously been reported to Audit Committee in more detail in the form of, for example:

- The Annual Governance Report presented to Audit Committee in September 2012 immediately prior to the 2011/12 Statement of Accounts being approved, and
- Interim Audit Report presented to Audit Committee in April 2012

The main headlines from the AAL are:

- The Council's financial statements were produced to a good standard without the need for audit adjustment and were given an unqualified audit opinion before the statutory deadline of 30 September. KPMG LLP complemented officers on the proactive approach taken in dealing with complex accounting issues and in providing working papers to the expected standard and timely responses to audit queries; and
- The Council has put in place proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness in the use of its finite resources.

The AAL also confirms that no high priority recommendations were made in relation to the 2011/12 audit and that there are no other matters that need to be brought to the attention of the Audit Committee.

This is a very positive audit assessment for the 2011/12 year. It also shows the Council's Financial Services function (part of the Council's Resources Directorate) to be in a strong position to proactively support the Council in meeting the significant financial challenges facing the local government sector.

8. Finance

There are no financial implications resulting from this report.

9. Risks and Uncertainties

Failure to continue to maintain robust financial management and internal control arrangements could lead to less positive conclusions being reached by KPMG LLP in its 2012/13 Annual Audit Letter.

KPMG LLP, in its 2012/13 audit plan have highlighted their intention to focus on continuing to assess the Council's financial resilience and how it is prioritising resources within tighter budgets.

10. Policy and Performance Agenda Implications

The Council's ability to deliver robust financial management and internal control arrangements will continue to be assessed as part of KPMG's 2012/13 external audit work.

11. Background Papers and Consultation

KPMG Annual Audit Letter 2011/12

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Annual Audit Letter 2011/12

Rotherham Metropolitan Borough Council

11 October 2012

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies.* This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Steve Clark, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Headlines

This report summarises the key findings from our 2011/12 audit of Rotherham Metropolitan Borough Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2011/12 financial statements and the 2011/12 VFM conclusion.

VFM conclusion	We issued an unqualified value for money ('VFM') conclusion for 2011/12 on 27 September 2012. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness. To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.
VFM risk areas	We identified two significant risks to our VFM conclusion and considered the arrangements you have put in place to mitigate these. These risks were: • the conclusion of the partnership agreement with BT; and • the decision to re-procure the Digital Region services under a new business model. Our work in both cases concluded the Authority exercised the expected financial and risk considerations in taking its decisions.
Audit opinion	We issued an unqualified opinion on your financial statements on 27 September 2012. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.
Financial statements audit	We identified no significant adjusted or unadjusted misstatements as part of our audit work. The Authority proactively raised complex accounting treatments in respect of the ending of the partnership with RBT and accounting for the provision for Digital Region Ltd in advance of our final audit visit. In both cases the Authority produced good quality and technically compliant working papers to justify the accounting treatment. Where we raised queries with the accounting treatment, officers responded quickly with further justification and supporting evidence. Overall: • the Authority had produced the financial statement to a good standard as in previous years; • Financial Services provided, or were able to provide on request, working papers which fully addressed our line of enquiry; and • Officers provided timely responses to ad hoc requests and queries which we raised throughout the audit without exception.
Annual Governance Statement	We reviewed your *Annual Governance Statement* and concluded that it was consistent with our understanding.

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Headlines (continued)

We provide a summary of our key reports in Appendix 1.

All the issues in this letter have been previously reported.

Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	We raised no high priority recommendations as a result of our 2011/12 work.
Certificate	We issued our certificate on 27 September 2012. We did consider whether the ongoing nature of the Digital Region issue required us to withhold our certificate, however we concluded that was not the case, because if any further audit action was required this could be taken in 2012/13 if required. The certificate confirms that we have concluded the audit for 2011/12 in accordance with the requirements of the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.
Audit fee	Our fee for 2011/12 was £316,650 excluding VAT. This has been increased from our initial fee of £310,500 due to additional work required in relation to auditing the accounting treatment of RBT and the Digital Region issue. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

Month (2012)	Report	Description
January	**Certification of Grants and Returns (January 2012)**	This report summarised the outcome of our certification work on the Authority's 2010/11 grants and returns.
February	**External Audit Plan (February 2012)**	The *External Audit Plan* set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.
March		
April	**Interim Audit Report (April 2012)**	The *Interim Audit Report* summarised the results from the preliminary stages of our audit, including testing of financial and other controls.
May		
June		
July		
August	**Audit Fee Letter (August 2012)**	The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2012/13 financial year. This was issued later than usual this year as we were only reappointed as your auditors in August 2012.
September	**Auditor's Report (September 2012)**	The *Auditor's Report* included our audit opinion on the financial statements, our VFM conclusion and our certificate.
September	**Report to Those Charged with Governance (September 2012)**	The *Report to Those Charged with Governance* summarised the results of our audit work for 2011/12 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.
October	**Annual Audit Letter (October 2012)**	This *Annual Audit Letter* provides a summary of the results of our audit for 2011/12.
November		

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Appendix 2: Audit fees

This appendix provides information on our final fees for 2011/12.

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the outturn against the 2011/12 planned external audit fee.

External audit

Our final fee for the 2011/12 audit of the Authority was £316,650 (£345,000 in 2010/11). This is higher than the planned fee of £310,500 because of the additional work associated with auditing the accounting treatment of the:

- conclusion of the partnership agreement with BT; and
- decision to re-procure the Digital Region services under a new business model.

Wider responsibilities under the Audit Commission Act 1998

We have also charged £1,893 in relation to our wider responsibilities under the Audit Commission Act 1998. As part of these responsibilities we needed to consider whether the ongoing Digital Region issue required us to withhold out audit certificate until the issue was resolved.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2011/12* which we are due to issue in January 2013.

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 Agenda Item 8

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**21st November, 2012**
3.	**Title:**	**External Audit Fees Letter 2012/13**
4.	**Directorate:**	**Resources**

5. Summary

The Council's external auditor, KPMG LLP, has set out in its Annual Audit Fees Letter for 2012/13 (Appendix 1) the proposed external audit work to be undertaken in 2012/13 and indicative fee for carrying out this work.

The indicative fee for 2012/13 represents a substantial reduction of 40% compared to 2011/12 and is a welcome contribution towards the budget reductions the Council needs to make.

6. Recommendations

That the Audit Committee notes the scope of the 2012/13 audit and indicative fee for carrying out this work set out in the External Auditor's Annual Audit Fees Letter.

7. Proposals and Details

Indicative fee

Members will be aware that following a procurement exercise conducted as a result of the Government's decision to abolish the Audit Commission, KPMG's appointment as the Council's external auditor was confirmed for a further five years from 2012/13 until 2016/17. The current audit arrangements have been fixed for the duration of the contract with the aim of keeping audit fees fixed as low as possible.

KPMG's Annual Audit Fees Letter (attached as Appendix 1) sets out the proposed audit work to be undertaken in 2012/13 and indicative fee for carrying out that work.

As explained in the Fees Letter, the indicative fee of £186,300 is in line with expectations based on the Audit Commission's published work programme and scales of fees for 2012/13, and, reflects KPMG's current assessment of audit risk and complexity which is that the overall level of risk has not changed significantly from 2011/12. The Audit Commission have indicated that the indicative fee should remain for the duration of the five years of the contract unless additional work is required as a result of changes in legislation, professional standards or financial reporting, or, additional work is required by the Audit Commission or other regulators, or, there is a significant change in the risk assessment.

For the first time, the Audit Commission has also published an indicative overall fee for grant certification work. This is estimated to be £24,650.

As illustrated below, the combined fee for carrying out the 2012/13 audit and grant certification work represents a substantial reduction compared to 2011/12. The 40% reduction in the audit fee has been achieved by passing on to local authorities savings achieved as a result of the Audit Commission's procurement exercise. This is a helpful contribution towards the budget reductions the Council needs to make.

	2011/12 **£**	**2012/13** **£**
Audit	310,500	186,300
Grant Certification	75,000	24,650
Total fees	385,500	210,950

It should be noted that the fees do not cover any additional work that KPMG may be called upon to undertake to address questions or objections raised by local government electors.

Appendix 1 to the Fees Letter sets out a number of other assumptions in determining the indicative fee, most notably:

- Internal audit meets the appropriate professional standards and KPMG can place reliance on internal audit work on all systems producing material figures in the accounts
- Good quality working papers will be made available for audit within agreed timeframes which meet KPMG's expectations
- The financial statements presented for audit are complete and take account of changes to local authority accounting

We will endeavour as in previous years, to fully comply with these requirements.

<u>Scope of audit</u>

The main two elements of the external auditors planned work is in relation to the following:

- **Financial statements 2012/13** - KPMG will carry out the audit of the Council's 2012/13 financial statements in accordance with International Standards on Auditing and are required to issue an opinion on whether the financial statements 'give a true and fair view' of the financial position of the Council as at 31 March 2013 and its income and expenditure for the year then ended. This opinion is expected to be given by September 2013.

- **Value for Money Conclusion 2012/13** – KPMG are required to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. As in 2011/12, value for money work will be structured around 2 themes:

  Theme 1: Assessing the Council's arrangements for securing financial resilience; and

  Theme 2: Assessing whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources

  The primary driver for reviewing financial resilience is the current, difficult financial climate that local authorities find themselves in and in particular the need to deliver an unprecedented level of financial savings over the next few financial years. KPMG expect to issue their VFM Conclusion for this work in September 2013.

In addition, external audit will also:

- **Interim Audit Review** - assess the adequacy of the Council's control and governance framework (including Internal Audit) underlying its published financial information so as to gain assurance of the robustness of its financial systems, processes and procedures. A report on this assessment is expected in May 2013.

  In so doing, KPMG will consider whether the control and governance framework described in the Council's Annual Governance Statement is consistent with KPMG's knowledge and properly prepared in accordance with proper practice

- **Whole of government Accounts (WGA)** - KPMG will be required to review and report on whether the WGA consolidation pack is consistent with the Council's published financial statements and has been properly prepared. An opinion on the WGA is expected late September / early October 2013.

8. Finance

The 2012/13 indicative fee for the audit work is £186,300 plus £24,650 for grant certification work.

KPMG will issue a separate plan for the audit of the 2012/13 financial statements containing a more detailed risk assessment early in 2013. If any significant amendment to the level of fees is proposed, these will first be discussed with the Director of Finance, and brought to the attention of the Audit Committee outlining the reasons for any changes to the fee.

9. Risks and Uncertainties

The current, difficult financial landscape facing all local authorities brings with it a number of risks that will need to be effectively planned for and managed. The introduction of a new VFM audit approach focussing on financial resilience and prioritising resources within tighter budgets will provide an independent review of how well the Council has planned for and managed these risks. Being able to positively demonstrate this to KPMG will help the Council sustain its strong financial management and financial performance base.

10. Policy and Performance Agenda Implications

Good financial management and a strong financial performance are essential to the Council achieving improved corporate and service outcomes in accordance with its Corporate Plan priorities.

11. Background Papers and Consultation

Audit Commission – Work Programme and fee scales 2012/13
KPMG – Audit Fees Letter 2012/13

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Our ref rk/016/let-001A

20 August 2012

Dear Andrew

Annual audit fee 2012/13

I am writing to confirm the audit work and fee that we propose for the 2012/13 financial year at Rotherham Metropolitan Borough Council ('the Council'). Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission.

As we have not yet completed our audit for 2011/12 the audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative fee for the audit for 2012/13 is £186,300 (plus VAT). This compares to the planned fee of £310,500 for 2011/12.

The proposed audit fee represents a 40% reduction compared to the previous audit year and is in line with the scale fee recommended by the Audit Commission.

From 2012/13, the Audit Commission is replacing the previous schedule of hourly fee rates with a composite indicative fee for certification work for each body. The Commission has calculated an indicative fee is based on actual certification fees for 2010/11, adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating the general reduction to its fee scales. Based on these changes, I estimate that the fee for the certification of 2012/13 grants and returns will be £24,650 (plus VAT). This is based on the Council requiring the following schemes to be certified:

- Housing and Council Tax Benefits;
- NNDR; and
- Teachers' Pension Scheme.

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The indicative fees are based on a number of assumptions, which I have summarised in Appendix 1 to this letter.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements and certification work is not significantly different from that identified to 2011/12. A separate plan for the audit of the 2012/13 financial statements will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of the Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

The key members of our audit team for the 2012/13 audit are:

Name	**Role**	**Contact details**
Stephen Clark	Director	stephen.clark@kpmg.co.uk 0113 231 3148
Rashpal Khangura	Senior Manager	rashpal.khangura@kpmg.co.uk 0113 231 3396
Amy Warner	Assistant Manager	amy.warner@kpmg.co.uk 0113 231 3089

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KPMG LLP
Annual audit fee 2012/13
20 August 2012

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *'Something to Complain About'*, which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely

S R Clark

Stephen Clark
Director

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011/12;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2012/13 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and materially accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes;
- the grant claims and returns requiring certification are as listed above; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the financial statements audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
Financial Statements audit plan	February 2013
Interim audit report	May 2013
Report to those charged with governance (ISA260 report)	September 2013
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2013
Opinion on Whole of Government Accounts return	September 2013
Annual audit letter	October 2013
Certification of grant claims and returns	February 2014