

Public Document Pack



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26 November 2012

Dear Councillor

NOTICE IS HEREBY GIVEN THAT a meeting of the **GOVERNANCE COMMITTEE** will be held in the HMS Brave Room at these Offices on Thursday 6 December 2012 at 6.00 pm when the following business will be transacted.

Members of the public who require further information are asked to contact Rebecca Brough on (01304) 872304 or by e-mail at rebeccabrough@dover.gov.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read "Nicky", written over a white background.

Chief Executive

Governance Committee Membership:

Councillor T J Bartlett (Chairman)
Councillor K E Morris (Vice-Chairman)
Councillor M R Eddy
Councillor S J Jones
Councillor A S Pollitt
Councillor M A Russell

AGENDA

- 1 **APOLOGIES**
- 2 **APPOINTMENT OF SUBSTITUTE MEMBERS**
To note appointments of Substitute Members.
- 3 **DECLARATIONS OF INTEREST**

To receive any declarations of interest from Members in respect of business to be transacted on the agenda.

Where a Member has a new or registered Disclosable Pecuniary Interest (DPI) in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Where a Member is declaring an Other Significant Interest (OSI) they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

4 **MINUTES** (Pages 4 - 8)

To confirm the attached Minutes of the meeting of the Committee held on 27 September 2012.

5 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 9 - 33)

To consider the attached report of the Head of Audit Partnership.

6 **TREASURY MANAGEMENT QUARTER TWO REPORT** (Pages 34 - 50)

To consider the attached report of the Director of Finance, Housing and Community.

7 **PLANNED AUDIT FEE FOR 2012/13** (Pages 51 - 54)

To consider the attached letter from Grant Thornton.

8 **TERMS OF REFERENCE OF THE JOINT HEALTH, SAFETY AND WELFARE CONSULTATIVE FORUM**

At its meeting held on 10 October 2012 (Minute No 7), the Joint Health, Safety and Welfare Consultative Forum received a report on health and safety inspections which are being carried out at all of the Council's premises. The Director of Environment and Corporate Assets has delegated powers to agree remedial works arising from the inspections, but it is proposed that any other matters should be referred to Cabinet or Council or Corporate Management Team, as appropriate. Governance Committee is therefore requested to recommend to Council that the Terms of Reference of the Joint Health, Safety and Welfare Consultative Forum be amended to enable it to submit recommendations and advice on health and safety issues to Cabinet.

Access to Meetings and Information

- Members of the public are welcome to attend meetings of the Council, its Committees and Sub-Committees. You may remain present throughout them except during the consideration of exempt or confidential information.
- All meetings are held at the Council Offices, Whitfield unless otherwise indicated on the front page of the agenda. There is disabled access via the Council Chamber entrance and a disabled toilet is available in the foyer. In addition, there is a PA system and hearing loop within the Council Chamber.
- Agenda papers are published five clear working days before the meeting. Alternatively, a limited supply of agendas will be available at the meeting, free of charge, and all agendas, reports and minutes can be viewed and downloaded from our website www.dover.gov.uk. Minutes are normally published within five working days of each meeting. All agenda papers and minutes are available for public inspection for a period of six years from the date of the meeting. Basic translations of specific reports and the Minutes are available on request in 12 different languages.
- If you require any further information about the contents of this agenda or your right to gain access to information held by the Council please contact Rebecca Brough, Team Leader - Democratic Support, telephone: (01304) 872304 or email: rebeccabrough@dover.gov.uk for details.

Large print copies of this agenda can be supplied on request.

Minutes of the meeting of the **GOVERNANCE** Committee held at the Council Offices, Whitfield on Thursday 27 September 2012 at 6.00 pm.

Present:

Chairman: Councillor T J Bartlett

Councillors: M R Eddy
S J Jones
K E Morris
A S Pollitt
M A Russell

Also Present: District Auditor (Audit Commission)
Audit Manager (Audit Commission)

Officers: Director of Finance, Housing and Community
Director of Governance
Head of Audit Partnership (East Kent Audit Partnership)
Financial Services Manager
Team Leader – Democratic Support

229 DECLARATIONS OF INTEREST

There were no declarations of interest from Members.

230 MINUTES

The Minutes of the meeting of the Committee held on 14 June 2012 were approved as a correct record and signed by the Chairman.

231 FINANCIAL OUTTURN 2011/12

The Director of Finance, Housing and Community presented the Financial Outturn 2011/12 report to the Committee, advising Members that it needed to be considered in conjunction with the Statement of Accounts and the Annual Governance Report.

The report set out an explanation of the financial outturn, the financial standing of the Council, the details of changes to the accounts and a condensed version of information included in the accounts.

It was stated that the General Fund Balance for 2011/12 was projecting a surplus of £91,000 before carry forward requests of £58,000 were deducted. The underlying General Fund Balance was £2.25 million.

The Committee welcomed the news that the Director of Finance, Housing and Community was forecasting 100% recovery of the Council's deposit with Landsbanki following an announcement by the Winding Up Board that its anticipated recoveries exceeded the book value of the bank.

The key pressures for the Council's future finances were:

- Development and regeneration of the local economy;
- Localisation of Council Tax Benefit;

- Business Rates Retention Scheme;
- Welfare Reform and the transfer to Universal Credit;
- Potential further cuts in government funding;
- On-going impact of the economic climate; and
- Implications of the Localism Act.

In response to comments from the District Auditor that he recommended that the valuation of council houses be based on a figure for 31 March 2012 and not that used by the Council of 31 December 2011, the Director of Finance, Housing and Community stated that the valuation figure was reviewed on 31 March 2012 but that it was felt that the difference between the two valuations of approximately £4 million (averaging at £900 per council property) had no impact under accounting practices for capital assets on the financial outturn or the Council's financial standing.

Furthermore, it was felt that conditions in the housing market called into question the robustness of the 31 March 2012 valuation. The Council would continue to use the year end figure, subject to review each March to ensure that any change in valuation had no impact on the financial outturn or the Council's financial standing.

RESOLVED: That it be recommended to Cabinet:

- (a) That the report be received and noted.
- (b) That the Chairman of the Governance Committee be authorised to sign the Letter of Representation as set out in the Annual Governance report.

232 ANNUAL GOVERNANCE REPORT

The District Auditor presented the Annual Governance Report to the Committee and informed Members that he planned to issue an unqualified audit opinion. The Annual Governance Statement had been reviewed and found to be compliant with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework.

In terms of uncorrected uncertainties, in addition to the concerns over the valuation of council houses the District Auditor had also requested that the Council review and reconcile all soft loan debtor and creditor balances in the financial ledger to the supporting valuation schedules. It was estimated that the current soft loan creditor balances were underestimated by £328,000. The Director of Finance, Housing and Community emphasised that this did not call into question control of the creditors themselves but rather was a question of accounting treatment and reconciliation.

RESOLVED: That the report be received and noted.

233 STATEMENT OF ACCOUNTS 2011/12

The Financial Services Manager introduced the report, drawing Members' attention to the statement on heritage assets and the Council's decision to borrow £91 million at a fixed rate from the Public Works Loan Board over 30 years to fund a one-off payment to Central Government to end the subsidy arrangements for the Housing Revenue Account. The loan repayments would be lower than the subsidy paid to the Government making it a cost effective move.

The Committee was advised that the Audit Commission had awarded the Council an unqualified opinion in respect of the Statement of Accounts for 2011/13.

RESOLVED: (a) That the Director of Finance and his staff be thanked for their work in producing the Statement of Accounts.

(b) That the audited Statement of Accounts for 2011/12 be approved.

234 TREASURY MANAGEMENT YEAR END REPORT

The Director of Finance, Housing and Community presented the year end report on treasury management. It was stated that in-house investments of £5.5 million (30% of year end investments) achieved a return of 1.37%, which continued to outperform the benchmark. The £12.7 million (70% of year end investments) of investments managed by Investec on behalf of the Council also outperformed the benchmark with a return of 1.09%. The total interest earned of £355,000 represented a £50,000 improvement on the original budget projections.

The Council continued to adopt a risk minimisation approach to investments and with the exception of UK government and semi-nationalised bodies the duration of investment was kept to a maximum of 3 months.

Overall, the Council was comfortable with the level of returns achieved given the current economic climate and the risk management approach adopted.

RESOLVED: That the report be received and noted.

235 TREASURY MANAGEMENT QUARTER ONE REPORT

The Director of Finance, Housing and Community presented the Quarter 1 treasury management report to the Committee. It was stated that in-house investments of £6.6 million (34% of total investments) and those investments managed by Investec of £12.8 million (66% of total investments) during the quarter were currently outperforming their benchmark. The total interest earned of £73,000 was in line with the budget for the period.

The Council continued to adopt a risk minimisation approach to its investments and remained within Treasury Management and Prudential Code guidelines during the quarter.

RESOLVED: That the report be received and noted.

236 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Head of Audit Partnership (East Kent Audit Partnership) presented the quarterly internal audit update report setting out the work undertaken since the last report. The Committee was advised that 5 audits had been completed during the quarter, resulting in 3 Reasonable assurances (Waste Management, East Kent Housing – finance and ICT controls and East Kent Housing – tenant health and safety) being issued. The remaining two audits (East Kent Services – Quarterly Benefit Testing) were of a nature for which an audit assurance rating was not applicable. An additional 1 follow-up review had also been completed during the period and 4 further audits were in progress.

A total of 63.55 chargeable days of audit (21.18%) had been delivered against a planned target of 300 days during the quarter. As of the end of August 2012 the number of chargeable audit days delivered had increased to 113 days, although this was still below target. It was expected that with the filling of the vacant auditor post the report for quarter 3 would be closer to target.

Members welcomed the reasonable assurance for the Waste Management audit and emphasised the importance in managing cultural change.

- RESOLVED: (a) That the update report be received and noted.
- (b) That Councillor S J Jones be provided with a copy of the action plan in respect of the Waste Management audit.
- (c) That the Committee receive an update on the implementation of health and safety maps at its next meeting.

237 ACCESS TO INFORMATION PROCEDURE RULES

The Director of Governance presented the revised Access to Information Procedure Rules to the Committee.

The Committee was advised that The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 had come into force on 10 September 2012 and represented a fundamental change in the law. As a consequence it was necessary for the Council to amend its Constitution to reflect the new legal requirements.

An important feature of The Regulations removed the rules permitting private meetings of the Cabinet to be held although it was still possible to exclude the press and public from a public meeting of the Cabinet considering exempt business as long as 28 days notice had been given of the intention to do so.

RESOLVED: That it be recommended to the Council:

- (a) That it be noted that the Access to Information Procedure Rules incorporated within the Council's Constitution will need to be amended.
- (b) That the Director of Governance be requested to submit a revised text for the Access to Information Procedure Rules to a future meeting of the Governance Committee and the Council.
- (c) That the amendments to the Constitution set out in Appendix 1 relating to Strategic Management Team be adopted subject to the following revised text to replace the word "of" with "or" being included:

"The purpose of the Leadership Forum is therefore to

- facilitate discussions on general or particular issues or enable clarification of matters between Leader, the Chief Executive, members of the

executive, members of the Corporate Management Team"

238 RULES FOR SUBSTITUTES ON THE PLANNING COMMITTEE, REGULATORY FUNCTION COMMITTEES AND OTHER COMMITTEES

The Director of Governance presented the report reviewing the arrangements for appointing substitutes. The purpose of the proposals was to introduce increased flexibility in the use of substitutes while still retaining knowledge and expertise where appropriate.

Members broadly welcomed the proposals on the grounds that increased flexibility in the substitution rules would allow those with specific expertise or ward interests to substitute on committees for in response to items on the agenda. It was acknowledged that the amended arrangements for substitutions would need to be used responsibly to reduce the risk of any challenges to decisions.

RESOLVED: That it be recommended to the Council:

- (a) That Council Procedure Rule 4 (3) be deleted and a new Council Procedure Rule 4(3) be adopted as follows:

"For each committee, with the exception of the Cabinet, the Council will allow the same number of substitutes in respect of each political group as that group holds ordinary seats on that committee."

- (b) That the Governance Committee be requested to review the impact of this change in twelve months.

The meeting ended at 7.53 pm.

Subject: QUARTERLY INTERNAL AUDIT UPDATE REPORT

Meeting and Date: Governance Committee – 6 December 2012

Report of: Christine Parker – Head of Audit Partnership

Classification: Unrestricted

Purpose of the report: This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2012

Recommendation: That Members note the update report.

1. Summary

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2012.

2. Introduction and Background

2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed. Attached as Appendix 1 to the EKAP report is a summary of the Action Plans agreed in respect of the reviews covered during the period.

2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.

2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

2.4 Those services with either Limited or No Assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Appendix 2 to the EKAP report.

2.5 The purpose of the Council's Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit

reports and follow-up reviews since the report submitted to the last meeting of this Committee.

SUMMARY OF WORK

- 2.7 There have been fourteen Internal Audit reports that have been completed during the period. Three reviews were classified as providing Substantial Assurance, nine as Reasonable assurance, one concluded a split assurance level of Reasonable/Substantial and the remaining piece of work was of a nature for which an assurance level is not applicable i.e. quarterly housing benefit claim testing. Summaries of the report findings and the recommendations made are detailed within Annex 1 to this report.
- 2.8 In addition two follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.
- 2.9 For the six-month period to 30th September 2012, 144.51 chargeable days were delivered against the planned target of 300, which equates to 48.17% plan completion.

3 Resource Implications

- 3.1 There are no additional financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2012/13 revenue budgets.
- 3.2 The financial performance of the EKAP is currently on target at the present time.

Appendices

Appendix 1 – Internal Audit update report from the Head of the East Kent Audit Partnership.

Background Papers

- Internal Audit Annual Plan 2012-13 - Previously presented to and approved at the 27th March 2012 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of Audit Partnership



INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP.

1. INTRODUCTION AND BACKGROUND

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2012.

2. SUMMARY OF REPORTS:

	Service / Topic	'Delivering Effective Services' Standard	Assurance level
2.1	Homelessness of Young People	Gold	Substantial
2.2	Income	Gold	Substantial
2.3	Environmental Health & Safety at Work	Gold	Substantial
2.4	Risk Management	Bronze	Reasonable
2.5	Dog Warden Service	Gold/Silver	Reasonable
2.6	Creditors and Construction Industry Scheme	Silver	Reasonable
2.7	Car Parking Income and Enforcement	Gold	Reasonable
2.8	Vista Leisure – Performance and Monitoring Arrangements	Silver	Reasonable/ Substantial
2.9	EK Housing (Tenancy & Estate Management)	Shared Service	Reasonable
2.10	EK Housing (Rent Setting, Collection & Arrears Management),	Shared Service	Reasonable
2.11	EK Services – Customer Services	Shared Service	Reasonable
2.12	EK Services – ICT (Procurement & Disposals)	Shared Service	Reasonable
2.13	EK Services – ICT (ICT Physical & Environmental Controls)	Shared Service	Reasonable
2.14	EK Services – Housing Benefit Quarterly Testing (Qtr 2 of 2012-13)	Shared Service	Not Applicable

2.1 Homelessness of Young People – Substantial Assurance:

2.1.1 Background and Audit Scope

The Monitoring Officer reported to Council on 26 September 2012 with regards to the complaint of maladministration found against Dover District Council by the Local Government Ombudsman (LGO) in July 2012. The findings and all of the remedies as outlined in the LGO report were accepted and payment approved of £5,050 to remedy the injustice.

The East Kent Audit Partnership were asked by Management to review staff awareness of, and the proper application of, the 'Joint Protocol' that has been designed to address the needs of homeless young people between the ages of 16 to 21 in Kent. Adherence to the Joint Protocol had been cited as a failing within the LGO report and a recommendation made that an audit of procedures for dealing with homelessness applications from young people was undertaken.

This audit examined control effectiveness and the management of associated risks relating to homeless young people. The scope included a review of the Joint Homeless Protocol for 16 to 21 year olds, the supporting operational procedures, officer training, referrals and partnership working, the monitoring and reporting practices on homeless activity and a review of accommodation available to offer to young homeless people.

2.1.2 Summary of Findings

The working practises in place to implement adherence to the Joint Protocol are generally working very well and most of the expected controls are being effectively applied. Procedural improvements were found to address the Local Government Ombudsman's criticisms reported in July of this year.

The Protocol has been designed to address the needs of homeless young people aged 16 to 21 and covers the assessment and provision of support to these individuals. Discussion with the Housing Options Manager and the Young Persons Housing Options Officer confirmed full awareness of the joint protocol and its implementation requirements. The launch of the revised Joint Protocol in 2010 was supported by the Joint Policy & Planning Board (JPPB) via a dedicated training programme, the PowerPoint presentation of which is still available for reference on their web site.

There are written internal procedures that appropriately reflect and support the Homelessness Code of Guidance for Local Authorities and the Joint Protocol. The Young Persons Housing Options Officer is a pivotal role within the associated activities that involve ongoing contact with young individuals, contact with partners and the proactive monitoring and case management of young people. Between January 2010 and September 2012 163 young people have either presented and/or been referred to this Council as the local housing authority.

The result of sample testing concluded satisfactory implementation of both the protocol, where applicable, and the Council's responsibilities to referrals received. All aspects of the protocol as a whole are often not immediately relevant to a young person's situation on referral but procedures are followed in a pragmatic way, determining which path is relevant to each situation and any changes that may follow.

It is considered appropriate to mention here that the Council must be aware of the possibility of abuse of the system by some young people presenting as homeless in an attempt to queue jump the process of housing allocation and access to Council housing. Full awareness of this was demonstrated during discussions with key officers.

Sample testing confirmed effective implementation of the expected procedural controls and demonstrated procedural improvement over the Local Government Ombudsman's criticism in the maladministration case reported in July of this year – it should be noted that the occurrence investigated took place during 2009.

Good relationships and communication links were demonstrable between the Housing Options Team, particularly the Young Persons Housing Options Officer, and the majority of partners also involved in the provision of support to young people.

There is however an ongoing issue with regards to the service provided by Children's Social Services (CSS). There exists a lack of engagement by this organisation in the JPPB strategic partnership meeting and the Youth Homelessness Forum's, not just for this Council but also for other local authorities. There is also concern, as evidenced during this audit, on the assessment decisions being made by CSS determining that the young person is not a 'child in need' and therefore not the responsibility of CSS but the local housing authority. This has been raised with, and is being taken forward, by the JPPB.

Until full engagement by CSS in the Joint Protocol is obtained full effectiveness of partnership working within the Joint Protocol is unlikely to be achieved. It is however the responsibility of the JPPB, as the strategic partner between health, housing and social care, to address this problem.

Further investigation into this issue is outside of the scope of this review but it is a relevant fact and, subject to the support CSS are prepared to give to referrals, will impact on the Joint Protocol and legislative adherence in accommodating young people.

Revisions have recently been made to the monitoring information sent to the Joint Policy & Planning Board. The new spreadsheet now incorporates information to provide a detailed history and snapshot of case progression by the linking together of other information sources. There is still some work to be undertaken to complete the database but, once fully populated, this spreadsheet will be a useful tool, especially for the monitoring of the number of cases being challenged by the Council on CSS decisions. This spreadsheet is recognised as a development opportunity that will further enhance the existing monitoring regime in place and support the demonstrable implementation of the Joint Protocol.

Discussion with the Housing Options Manager and Young Persons Housing Options Officer confirmed awareness that Bed and Breakfast was not ideal for young people but that there were limited other options within Dover. The Youth Homelessness Action Plan however does recognise the provision of suitable accommodation as an area to be addressed. Opportunities are kept under review and monitored via the Youth Homelessness Forum that is attended by representatives of the key agencies involved in delivering the Joint Protocol and homelessness strategy.

No recommendations have been made within this report due to the sound system of control, within the operational confines of the Council, currently being managed and achieved.

2.2 Income – Substantial Assurance:

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that all income due to the Council is completely and accurately accounted for in a timely manner. The scope of the audit will include:

- Postal Remittances;
- Processing of cheque payments;
- Processing of Bank 'tape' and Giro payments etc;
- Phone payments;
- Internet payments;

Review allocations from the Council's main income suspense account and the interface of income into other systems i.e. Cedar e-financials, Sundry Debtors, Housing Rents, Business Rates, Council Tax, etc

2.2.2 Summary of Findings

The income management process is working well and the expected controls are effective.

The review has tested samples of all methods of payment made available by the Council and confirms that income is processed accurately and in a timely manner, the interface between E-financials and AIM was effective and accurate, payments are allocated to the correct income codes and accounts and reconciliations of the feeder systems are undertaken.

2.3 Environmental Health & Safety at Work – Substantial Assurance:

2.3.1 Audit Scope

The audit will examine and evaluate the procedures and controls established by management to ensure that the Council is adequately fulfilling its responsibilities under the Health and Safety Act 1974 (specifically section 18).

2.3.2 Summary of Findings

The Council's proactive management of Health & Safety at Work (H&SW) was evident throughout this review.

The Public Protection Team Leader was found to be a very knowledgeable and enthusiastic manager with demonstrable commitment to Section 18 compliance. Clear and concise procedure and guidance notes were available. The trained officers who undertake H&SW duties hold a generic post that incorporates more than solely H&SW inspections. This does on occasion result in the more effective use of resources by combining other environmental health public protection inspections.

The Council's intervention plan, incorporating a planned inspection programme, is very comprehensive. It is an active document that is reviewed and updated on an annual basis. There is active engagement in the monitoring and reporting of performance over the enforcement of health and safety at work.

The Service should be commended for the approach and level of evidence provided to demonstrate the Council's commitment to implementing the Section 18 Standard.

2.4 Risk Management - Reasonable Assurance:

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council adopts best practices in the identification, evaluation and cost effective control of risks to ensure that they are reduced to an acceptable level or eliminated, and also maximise opportunities to achieve the Council's vision.

2.4.2 Summary of Findings

The risk management process is generally working well and most of the expected controls are effective.

The focus of risk management has changed since the previous audit in 2009 following the classification of risk management as a 'bronze' service by Cabinet at its meeting held on 4 October 2010. The resulting operational changes however are not considered to introduce any significant weakness to the effectiveness of the risk management control objectives. This review confirmed that risk management activity continues to be undertaken throughout the organisation with general responsibilities allocated to members, senior officers and staff.

Responsible managers using their skill and knowledge of their specific services assess the impacts and likelihoods of each risk. Without documented evidence to demonstrate how the assessment was arrived at it is not possible to comment on the robustness of the assessment process itself – effectiveness will be determined by the level of risk occurrence. This is considered to be a reasonable and pragmatic approach.

Within the limits of this review, risk management was demonstrable in the normal governance and management process of the organisation.

2.5 Dog Warden Service – Reasonable Assurance:

2.5.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council has an effective dog warden service encompassing both the recovery and kennelling of stray dogs and also enforcement action of both dog fouling.

2.5.2 Summary of Findings

Management and staff are proactive in providing the service, and the majority of expected internal controls are in place and effective. Management has already identified the need for further educative campaigns and is looking at developing this under the current service restructure.

However, some areas for improvement have been highlighted as a result of this review. Documented procedure should be available for the service and the Dog wardens' daily work records should be sufficiently detailed to identify the specific areas patrolled. Local Performance indicators and contract performance indicators should be aligned and developed to provide effective monitoring of services. Finally, all equipment provided to undertake the service should be regularly checked to ensure it is available and in good working order.

2.6 Creditors and Construction Industry Scheme – Reasonable Assurance:

2.6.1 Audit Scope

To ensure that only bona-fide invoices are paid, and that the correct procedures have been applied in the way in which the expenditure was incurred.

2.6.2 Summary of Findings

The payments process has been established for a number of years using the Cedar E-financials system. Access to the system is password controlled with individuals allowed different levels of activity thus allowing for the separation of duties. Records of invoices are now retained electronically yet there were instance where the copy made was indecipherable, controls need to be established to ensure that the scanned record, the only copy retained, is readable.

There are two separate records of authorised signatories: a cedar list of the officers and their responsibility levels, and a hard copy of their signatures; both were not entirely up to date, accordingly corrections should be initiated.

The Authority's commitment to introduce e-procurement by April 2012, given in response to an audit recommendation made in 2010, has foundered. The reasoning given at that time remains valid today and management should resurrect this plan, which would enhance business efficiency.

A relatively large number of retrospective order cases have occurred since April 2012, contrary to the Financial Procedure Rules. A report of these instances is now prepared for the Procurement Panel and positive action is taken to interview the officers responsible. The number of cases remains broadly similar to last year and it is evident that this review procedure will need time to bed down.

Supplier bank details are changed only if instruction in writing is received, however, there is no independent verification undertaken by a second officer of all instances of change. Reliance is placed on picking up changes when payment batches are authorised. This check only takes place if the bank details are listed on the invoice. Those that are not may have the wrong bank information; this is a control weakness that should be addressed.

2.7 Car Parking Income and Enforcement – Reasonable Assurance:

2.7.1 Audit Scope

2.7.2 Summary of Findings

The audit review of car parking income and penalty charge notices has identified that – whilst the majority of the expected internal controls are operating in a satisfactory manner – there are several key issues that need to be addressed by the Parking Services section. These include:

- Ensuring that the Council's name and VAT number are shown on the off street pay and display car park tickets;
- Write offs are approved by the Section 151 Officer, as per the Financial Procedure Rules, before they are written off on the Parking Gateway system; and
- All work should be saved within the Parking and CCTV folder on the network drive as opposed to individual PC hard drives in order to ensure that Council data is backed up.

The audit has also identified that the payments for the cash collection contract are not being made in accordance with the Council's Contract Standing Orders and Financial Procedure Rules. Payments are not being processed through the contract register and neither Procurement nor Legal had been notified that the new contract was in place for the five-year period 2010 to 2015. The last entry being made on the contract register was December 2009. In addition officers responsible for this contract have not been able to find the signed copy of the current cash collection contract documentation to ensure that both parties are complying with the contract.

2.8 Vista Leisure (Performance & Monitoring Arrangements – Substantial/Reasonable Assurance:

2.8.1 Audit Scope

To ensure that Vista Leisure is operating the leisure centres in accordance with the provisions contained within their lease and associated arrangements. As a result of this the Council's leisure arrangements are economic, efficient and effective in meeting the needs of the residents of the District.

2.8.2 Summary of Findings

Management can have: -

- Reasonable Assurance that the Council currently has up to date leases and appropriate funding arrangements, however there are only currently minimal performance monitoring arrangements in place.
- Substantial Assurance that Vista are fulfilling their responsibilities to manage the Council's facilities.

The majority of the requisite internal controls, policies and procedures have been established in this area; namely:

- A funding agreement relating to Leisure Services was created in 2001, this stipulates in schedule 2 the management information required from Vista annually.
- The Council has an individual lease for each facility Vista manage on behalf of them. The leases have all been renewed in the last two years. The leases have schedules attached to them clearly stating what is the council's responsibility and what is Vista's and these have been agreed as part of the lease renewal process.
- Vista has received Quest accreditation for both Dover Leisure Centre and Tides. As part of this process service improvement plans have been created for both

sites by Quest identifying where improvements need to be made to increase their score for the next visit.

- A report was approved by Cabinet on the 10th September 2012 regarding the proposed merger between Vista and Thanet Leisure Force from the 1st April 2013. The report included the proposed funding arrangements for 2012/13 to 2015/16 and the transfer of the current leases to the new organisation.

There are however some areas for improvement and these are detailed below.

The Environment and Corporate Assets Service Plan for 2012/13 includes milestone to '*Develop a robust planned maintenance programme for Dover Leisure Centre and Tides in partnership with Vista*' and linked to this are three performance indicators surrounding customer satisfaction

These performance indicators are however very narrow and do not provide meaningful information to ensure that Vista are providing an effective service. Vista participate in an annual benchmarking exercise carried out by the *Sport Industry Research Centre* and a report is produced with their results. Some of the indicators measured are subsidy per square metre, subsidy per visit and subsidy per catchment area person and the SIRC information provides a very useful range of data which could be utilised by the Council in conjunction with Vista to improve those areas of the service currently identified by the benchmarking as being in the lower quartiles.

At present Vista are based in the Council's offices at Whitfield and there is a good working relationship between both parties.

An analysis of the grant funding to Vista shows that it has reduced significantly and this will impact on their cash flow. In addition to this the value of creditors outstanding at year-end has dramatically increased and this will also affect cash flow.

An analysis of visitor numbers shows that there has been no decrease in the number of visitors to both centres; therefore it appears that the removal of the reimbursement of car parking fees has not affected the actual number of people visiting the facilities.

2.9 EK Housing (Tenancy & Estate Management) – Reasonable Assurance:

2.9.1 Audit Scope

To review the tenancy and estate management arrangements using the Audit Commission's Tenancy and Estate Management KLOE (Key Lines of Enquiry) as a guide

2.9.2 Summary of Findings

The audit reviewed present practices across the four partner Council areas. The audit accepted that there were many areas where improvements have been identified as needed and that the organisation is relatively early in its development stage for unifying practices where possible. Much good work is on-going and the completion of the Customer Excellence gap analysis and subsequent action plan is one major example of this which should allow resources to be concentrated on the relevant areas to drive forwards on delivering Customer Service Excellence.

Each Council maintains their own tenancy agreement documentation and sign up procedures; testing revealed some unsigned agreements. Similarly not every

authority offers the same types of tenancy with this Council not currently offering introductory tenancy arrangements. A neighbouring Council also present a different approach to signing tenancy agreements with the Council's residual housing service insisting that they must sign all tenancy agreements, despite this role having been delegated to EK Housing under the management agreement between the parties. This arrangement can lead to administrative problems. Individually these are not major issues but collectively they indicate the need to continue to pursue a common approach across all four districts.

At one Council there were a large number of very small recurring debts on the rent accounts which never change, appearing on the weekly debtor print run; it would enhance business efficiency to take action to remove them from the system either through collection or write off.

The procedure for ensuring that tenants request permission for alterations was well publicised but could be improved by having an Internet presence. Where professional guidance had been sought before approval for alterations was given, subsequent follow up inspections were not always carried out to confirm that the work had been undertaken to a satisfactory standard. The updating of the asset database to reflect such alterations was not undertaken with any regularity.

Tenant and leaseholder involvement is viewed as an integral and vital element of the service and each Council has developed its own environment in which this can flourish. There is a full review taking place to identify what is being offered, what is needed for the future and how to take the best practices forwards.

Cleaning of communal areas is undertaken in three authorities by the same contractor with each contract managed in a different way. The residents are presented with schedules and a free phone number for reporting failures in the service. At TDC there is less clarity and information and this should be addressed.

For communal grounds maintenance there is again a variety of contractors undertaking the work; in-house in two areas and through external contractors managed by the residual authority at the other two. There appears to be no service level agreements at any site and this should be rectified. The contract specification is detailed at three of the partner councils but there is no specification at the fourth where the work is based on what was done historically, and again this should be rectified. Resident involvement is achieved through various inspection regimes, walkabouts, events and informal reporting and is an effective way to monitor service levels.

2.10 EK Housing (Rent Setting, Collection & Arrears Management) – Reasonable Assurance:

2.10.1 Audit Scope

To ensure that monies properly due in respect of housing rent are calculated, collected and accounted for correctly.

2.10.2 Summary of Findings

The Rent Setting Process and Arrears Management processes are generally working well across the four partner councils.

Most of the expected controls are in place although there are some which could be improved upon in order to become more effective; there are examples of best practice across the four areas that can be ported between them to increase efficiency and effectiveness and this is work in progress.

The level of rent arrears has decreased across all four authorities since April 2011, which is a very positive accomplishment for EK Housing in its first year. The Level of Former Tenant Arrears (FTAs) has also generally shown improvement.

2.11 EK Services (Customer Services) – Reasonable Assurance:

2.11.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide the level of service required by the partner Councils and incorporate relevant internal controls regarding the interface with the public.

2.11.2 Summary of Findings

As part of the joint working arrangement put in place by Canterbury City Council, Dover District Council and Thanet District Council, EK Services provide the Customer Services function for the three authorities. This function has now been in place for approximately one year.

Finding the balance between improving service delivery to the public whilst reducing the actual cost is a difficult thing to do. However EK Services has put in place a business plan and various service delivery projects for the 2012/13 financial year that it is hoped will drive the service forward with smarter joined up working practices and improved performance (i.e. Abandoned rate calls) whilst delivering the budget savings as required by the three authorities.

There are several issues that need to be addressed and these are highlighted in the report, which could assist in helping EK Services to meet their desired outcomes.

2.12 EK Services (ICT Procurement & Disposals) - Reasonable Assurance

2.12.1 Audit Scope

To ensure that the procedures and internal controls established by EK Services are sufficient to provide the level of service required by the partner Councils in respect of the procurement and disposal of ICT equipment on behalf of the partners.

2.12.2 Summary of Findings

EK Services took over the ICT function for Canterbury City Council, Dover District Council, Thanet District Council and East Kent Housing from April 2011.

As the partner authorities each have their own processes in place for procurement, EK Services are unable to have one process in place for purchasing ICT equipment. However they have worked with each partner to create a process for each, which works effectively. EK Services do not currently have access to the Dover financial system and therefore all queries have to be redirected to the Authority.

EK Services ensure that when purchasing any item three quotes are always obtained to make certain that they are receiving value for money regardless of whom they are procuring it for. Every month EK Services also send out a hardware specification to a number of IT suppliers for them to provide quotes on the specific items, the cheapest quote is then used by EK Services if any of the hardware items are required.

Some recommendations have been made regarding the disposal of the equipment to ensure that it is reviewed prior to disposal and then reconciled to the disposal certificate provided.

2.13 EK Services (ICT Physical & Environmental Controls) - Reasonable Assurance

2.13.1 Audit Scope

To ensure that the physical and environmental controls over the actual ICT assets, including the servers are robust and are sufficient to enable EK Services to provide the level of ICT service required by the partner authorities.

2.13.2 Summary of Findings

The level of service to be provided by EK Services ICT and responsibilities of EK Services and the three partner authorities is determined in the EK Services Collaborative agreement. The ICT Service Level Agreement (SLA) forms part of this document. The SLA gives a broad indication of how EK Services will achieve the desired outcomes to certain standards. It is intentionally not specific about exactly how these outcomes will be achieved, as EK Services need the flexibility to choose the most effective way of working to reach the goals set – and this may change with technological, legal and generational developments.

A number of recommendations to strengthen internal controls have been made in this report that requires action from both EK Services and the partner authorities to ensure successful implementation.

EK Services has adopted Thanet's Information and IT Security Policies whilst Dover and Canterbury still apply their own IT Security Policies. All vary slightly and require officers working across partners to have knowledge of these variations. EK Services have identified this as a concern and aim to harmonise these policies, with the agreement of the partner authorities.

There is no annual requirement for staff to read and accept the IT Security Policies. As a result staff may forget their responsibilities and 'bad habits' may creep in.

EK Services inherited the inventories maintained by each partner authority. The validated information is now being manually recorded on TrackIT. All new purchases have been recorded on TrackIT since April 2012.

Prior to July 2011 each of the partner authorities managed their own service desk systems. EK Services has since created and now maintain a single version of TrackIT for service desk control. Individual item failures or problems are recorded in TrackIT although parameters that are captured may not always provide 'forensic' visibility. Some maintenance work that is non-user affecting is not captured and some is. EK Services ICT continues to work to improve this.

The insured levels were sufficient to cover the equipment declared on the schedules provided by EK Services to the Insurance Officers at each partner authority, both on and off site, with one exception which could not be determined as sufficient data was not provided, despite numerous requests. However, EK Services have only recently undertaken a physical audit of equipment, which is yet to be reconciled to the inventories provided by the partner authorities; the results of which may impact on the levels of insurance required.

2.14 EK Services Housing Benefit Quarterly Testing (Quarter 2 of 2012-13):

2.14.1 Over the course of the 2012/13 financial year the East Kent Audit Partnership will be completing a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work.

For the second quarter of 2012/13 financial year (June to September 2012) 20 claims including new and change of circumstances of each benefit type were selected by using Excel software to randomly select the various claims for verification.

In total 20 benefit claims were checked and of these, two (10%) were found to have failed the criteria set by the Audit Commission's verification guidelines

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

3.1 As part of the period's work, two follow up review has been completed of those areas previously reported upon to ensure that the recommendations previously made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
a)	EK Housing Governance Arrangements	Reasonable	Reasonable	H M L	6 3 2	H M L	1 1 1
b)	EK Housing - Finance and ICT Controls	Reasonable	Substantial	H M L	0 2 3	H M L	0 1 2

3.2 Details of each of the individual high priority recommendations outstanding after follow-up are included at Appendix 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Governance Committee.

The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 WORK-IN-PROGRESS:

- 4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Commercial Properties and Concessions, Payroll, VAT, Council Tax, and Licensing.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2012-13 Audit plan was agreed by Members at the meeting of this Committee on 27th March 2012.
- 5.2 The Head of the Audit Partnership meets on a monthly basis with the Section 151 Officer to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

6.0 FRAUD AND CORRUPTION:

- 6.1 There were no other new or recently reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

7.0 INTERNAL AUDIT PERFORMANCE

- 7.1 For the six-month period to 30th September 2012, 144.51 chargeable days were delivered against the planned target of 300, which equates to 48.17% plan completion.
- 7.2 The financial performance of the EKAP is currently on target at the present time.
- 7.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has improved on the range of performance indicators it records and measures. The performance against each of these indicators for 2012-13 is attached as Appendix 4. There are no concerns regarding the resources engaged or outputs achieved at this time, and the East Kent Audit Partnership has performed well against its targets for the first three quarters of 2011-12.
- 7.4 The EKAP introduced an electronic client satisfaction questionnaire, which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the Balanced Scorecard attached as Appendix 4.

Attachments

- | | |
|---------|--|
| Annex 1 | Summary of High priority recommendations outstanding after follow-up. |
| Annex 2 | Summary of services with Limited / No Assurances |
| Annex 3 | Progress to 30 th September 2012 against the agreed 2012/13 Audit Plan. |
| Annex 4 | EKAP Balanced Scorecard of Performance Indicators to 30 th June 2012. |

Annex 5 Assurance statements

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTADING OR IN PROGRESS AFTER FOLLOW-UP - ANNEX 1

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
Governance Arrangements – August 2012		
<p>EKH specific Data Protection and Freedom of Information policies should be introduced.</p>	<p>EKH is currently working to the adopted policies of the sponsoring councils. An EKH specific policy will be provided to the Employment and Corporate Services sub-Committee in the final quarter of 2011/12.</p> <p>Responsibility: Company Secretary.</p> <p>Target date: 29 February 2012</p>	<p>The analysis of the four separate sets of policies identified a more complex baseline that we needed to move from. An outline report is being discussed at the Employment and Corporate Services Sub-Committee on 23 May 2012, with targets to compile an overarching framework containing a single data protection policy, retention schedule, publication scheme and FOI procedure for EKH by September 2012.</p>

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED				
Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Business Continuity	June 2011	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress
Payroll	June 2012	Reasonable/ Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress as part of 2012-13 planned audit
CSO Compliance	June 2012	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress
Partnerships	June 2012	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress

PROGRESS AGAINST THE AGREED 2012-13 AUDIT PLAN.

DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-12	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking Income & Enforcement	10	13	13.01	Finalised - Reasonable
Bank Reconciliation	5	5	0.17	Work-in-Progress
Creditors and CIS	10	10	10.15	Finalised - Reasonable
Income	10	10	5.14	Work-in-Progress
VAT	8	8	0.17	Work-in-Progress
Insurance & Inventories of Portable Assets	12	0	0	Deleted from plan to accommodate unplanned work
RESIDUAL HOUSING SYSTEMS:				
Housing Allocations/Choice Based Lettings	10	10	0	Quarter 4
GOVERNANCE RELATED:				
Governance Investigations	12	25	24.92	Work-in-Progress throughout 2012-13
Officers' Code of Conduct, Gifts & Hospitality, and Whistleblowing	8	8	0.17	Work-in-Progress
Equality & Diversity	10	10	0	Quarter 4
Contingency for an audit of VfM Strategy or Contribute to DES Projects	10	0	0	Deleted from plan to accommodate unplanned work
Data Protection	10	10	12.82	Work-in-Progress
Business Continuity & Emergency Planning	10	10	0.2	Deleted from plan to accommodate unplanned work
New Homes Bonus Validation	2	3	3.92	Finalised
Risk Management	9	9	11.18	Finalised - Reasonable
Corporate Advice/CMT	2	2	6.14	Work-in-Progress throughout 2012-13
s.151 Meetings and support	9	9	4.83	Work-in-Progress throughout 2012-13
Governance Committee Meetings and Reports	12	12	4.91	Work-in-Progress throughout 2012-13

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-12	Status and Assurance Level
2012-13 Audit Plan Preparation and Meetings	9	9	0.14	Quarter 4
SERVICE LEVEL:				
Dog Warden and Enforcement	8	8	11.54	Finalised - Reasonable
Environmental Health - Environmental Protection Service Requests	8	8	0	Quarter 3
Environmental Health - Port Health	8	8	0	Quarter 4
Environmental Health - Health & Safety at Work	8	8	3.63	Finalised - Substantial
Licensing	10	10	1.95	Work-in-Progress
Events Management	8	8	3.19	Finalised
Let Properties and Concessions	10	10	1.09	Work-in-Progress
Members' Allowances	8	8	0	Quarter 4
Sports and Leisure - VISTA	12	12	5.21	Work-in-Progress
Dover Museum and Visitor Information Arrangements	19	19	0.51	Work-in-Progress
OTHER				
Liaison with External Auditors	3	3	0.28	Work-in-Progress throughout 2012-13
Follow-up Work	17	17	3.48	Work-in-Progress throughout 2012-13
UNPLANNED WORK				
Internet Monitoring	0	0	1.43	Finalised
Homelessness of Young People	0	8	7.02	Finalised - Substantial
FINALISATION OF 2011-12 AUDITS				
Absence Management, Flexi and Annual Leave	0	0	8.32	Work-in-Progress
Waste Management			0.95	Finalised
Main Accounting Systems			0.12	Finalised
Compliance with Contract Standing Orders			0.64	Finalised
Days under delivered in 2011-12	0	0	-4.99	Finalised
EK HUMAN RESOURCES				
Recruitment	5	5	0.12	Quarter 4
Payroll, SMP and SSP	5	5	2.15	Work-in-Progress

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-12	Status and Assurance Level
HR Systems Development – I-Trent project.	3	0	0	Deleted from plan to accommodate unplanned work
TOTAL - DOVER DISTRICT COUNCIL RESIDUAL DAYS	300	300	144.51	48.17 % complete as at 30th September 2012
UNPLANNED ADDITIONAL WORK				
None to date				

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-12	Status and Assurance Level
Planned Work:				
Audit Committee/EA liaison/follow-up	4	7	7.97	Work-in progress throughout 2012-13
Repairs and Maintenance – Planned, responsive and Cyclical repairs.	30	30	0	Quarter 4 of 2012-13
Sheltered and Supported Housing	16	0	0	Delay until 2013-14
Tenancy and Estate Management	30	30	30.88	Finalised
<u>Finalisation of 2011-12 Audits:</u>				
Rent Calculation, Collections and Arrears Management	17.35	9.85	7.05	Finalised
Finance and ICT			1.15	Finalised
Responsive Work:				
Canterbury Capital and Revenue Budget Overspend Investigation	0	8	7.88	Finalised
Thanet Repairs and Maintenance	0	10	10	Draft Report
Former Tenant Arrears Policy Advice	0	1	0.68	Finalised
Current Tenant Arrears Policy Advice	0	1.5	1.49	Finalised
Total	97.35	97.35	67.10	

EK SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-12	Status and Assurance Level
Planned Work:				
Housing Benefits - Payments	15	15	0	Work-in-Progress
Housing Benefits – Admin & Assessment	30	30	0	Quarter 4
Council Tax	30	30	1.97	Work-in-Progress
ICT – Network Security	15	15		Quarter 4
ICT – Procurement & Disposals	15	6	1.92	In Progress
ICT – Software Licensing	15	15	0.57	Work-in-Progress
ICT – Internet / Email Forum	0	3	0.24	Work-in-Progress throughout 2012-13
Corporate / Committee	0	3	0.18	Work-in-Progress throughout 2012-13
Follow up	0	3	0.51	Work-in-Progress throughout 2012-13
DDC / TDC HB Quarterly testing	40	40	27.84	Work-in-Progress
Prior Year b/fwd	0	25.10	25.10	Completed
Total	160	185.10	58.31	31.5%

BALANCED SCORECARD – QUARTER 2

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>
	Quarter 2				
Chargeable as % of available days	84%	80%	Cost per Audit Day (Reported Annually)		£309.15
Chargeable days as % of planned days					
CCC	36%	50%			
DDC	48%	50%			
SDC	41%	50%			
TDC	56%	50%			
EKS	21%	50%			
EKH	62%	50%			
Overall	44%	50%			
Follow up/ Progress Reviews;					
• Issued	30	-			
• Not yet due	15	-			
• Now overdue for Follow Up	17	-			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

BALANCED SCORECARD – QUARTER 2

<u>CUSTOMER PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2012-13 Actual</u>	<u>Target</u>
	Quarter 2			Quarter 2	
Number of Satisfaction Questionnaires Issued;	38		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	13 =34%		Percentage of staff holding a relevant higher level qualification	33%	33%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	13%	13%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner • The audit report was 'Excellent or Very Good' • That the audit was worthwhile. 	100%	100%	Number of days technical training per FTE	1.46	3.5
	77%	90%	Percentage of staff meeting formal CPD requirements	33%	33%
	77%	100%			



ANNEX 5

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance

From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance

From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance

From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Subject:	TREASURY MANAGEMENT QUARTER TWO REPORT
Meeting and Date:	Governance – 6 December 2012
Report of:	Mike Davis, Director of Finance, Housing & Community

Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 30 th September 2012 and an update of activity to date.
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Recommendation:	That the report is received
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1. Summary

As at 30th September 2012, the Council's in-house investments (approximately £11.6m or 47% of total investments) and investments with the investment managers, Investec (approximately £12.8m or 53% of total investments) are currently outperforming their benchmark¹. The total interest received for the quarter (£80k) is above budget for the period.

The Council has remained within its Treasury Management and Prudential Code guidelines during the period.

2. Introduction and Background

CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009: it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

In order to comply with the CIPFA code referred to above, but minimise the resource requirements in producing this report, a brief summary is provided below, and Annex 1 contains a full report from the Council's Treasury Management Advisers, Sector.

Council adopted the 2012/13 Treasury Management Strategy on 7th March as part of the 2012/13 Budget and Medium Term Financial Plan.

3. Annual investment strategy

The investment portfolio as at the end of September is attached at Annex 2. Since the end of quarter two, an in-house investment with Bank of Scotland for £5m matured and has been re-invested with them over varying durations. In addition, a number of externally managed investments have matured or been sold since the end of the quarter. An update is attached at Annex 4.

In the current economic climate and with heightened credit concerns it is considered appropriate to keep investments short term with a maximum duration of 3 months. This limit will apply to all entities on the suggested Sector Credit List with the following exceptions:

¹ The "benchmark" is the interest rate against which performance is assessed. DDC use the London Inter-Bank Bid Rate or LIBID, as its benchmark.

- UK Government and related entities such as Local Authorities. Their suggested duration limit remains at 5 year
- UK semi-nationalised institutions (Lloyds / RBS). Sector continue to view the current significant UK ownership of these entities as providing significant comfort to investors. Their suggested duration limit is 12 months.
- Money Market Funds, which are “instant access” accounts.

Sector do not believe we should be unduly worried about prior investment decisions, rather that by restricting new investments to the above limits portfolios will be allowed to lower risk naturally as investments mature.

4. **Economic background**

The report attached contains information up to the end of September 2012; since then we have received the following update from Sector:

UK GDP

The UK economy left recession in the third quarter after posting its strongest quarterly GDP growth in five years, although temporary effects may have masked a weaker underlying picture. The Office for National Statistics (ONS) said Britain's gross domestic product rose by 1.0 percent between July and September after shrinking by 0.4 percent between April and June. On the year, the economy was flat. The return to growth after three consecutive quarters of contraction is welcome news for a coalition government under pressure to do more to revive the economy. The third quarter reading was boosted by ticket sales for the London Olympics and a rebound from the previous three months when an extra public holiday dented output. Bank of England Governor Mervyn King cautioned that the recovery would remain slow, with threats posed by the Eurozone debt crisis and a cooling of the fast-growing economies of India, China and Brazil. Nevertheless, investors scaled back expectations for another cash boost from the BoE as King said policymakers would think "long and hard" before extending the currently approved 375 billion pounds of quantitative easing bond purchases.

UK CPI

UK CPI jumped to a five-month high in October, driven by higher university fees and food prices. Annual CPI surged to 2.7 percent from 2.2 percent in September, the Office for National Statistics said, raising the chance the BoE will have to increase its short-term inflation forecast. Inflation hit its lowest level since November 2009 in September. The central bank had already expected the decline to stall, and currently does not forecast inflation will drop below its 2 percent target until the second half of 2013. Some central bankers have voiced inflation concerns, as well as doubts about whether further purchases of government debt can boost growth at a time when major headwinds include ongoing worries about the Eurozone and a lack of bank credit. The main driver for October's rise in inflation was an increase in maximum university tuition fees to £9,000 a year from just over £3,000 previously, adding 0.3 percentage points to the inflation rate. Also pushing up inflation were higher food prices, in part due to bad weather raising the cost of potatoes, as well as higher transport costs due to higher second-hand car prices.

UK Unemployment

The number of Britons claiming unemployment benefits posted its sharpest increase in over a year in October after a jobs boost from the Olympics faded, data showed, highlighting the fragile health of the British economy. The number of people claiming jobless benefit rose by 10,100 last month, the largest increase since September 2011, the Office for National Statistics said. Analysts had forecast an unchanged reading. The number of people without a job on the wider ILO measure fell by 49,000 in the three months through September to 2.514 million. The jobless rate dipped to 7.8 percent, compared with forecasts for a reading of 7.9 percent. While the ONS had no direct anecdotal evidence that people lost jobs after the end of the Olympics and Paralympics, which took place in August and September, the statisticians said the claimant count rose in London in the last two months.

Bank of England Inflation Report (November 12)

UK inflation is likely to be significantly higher over the next 18 months than expected in August, posing a barrier to further policy stimulus. In its quarterly Inflation Report, the central bank's projections showed it would take until the third quarter of 2014 before inflation fell below its 2 percent target, nine months later than predicted in August, despite sluggish growth.

UK Trade

UK's trade deficit narrowed more than expected in September, and third-quarter construction output fell by a similar amount to earlier estimates, reducing the chance of a downward revision to quarterly GDP. UK's economy bounced out of recession in the third quarter, growing by 1 percent, but weak economic data since then had made some analysts concerned that this growth figure could be revised lower.

5. Interest Rates

Given the circumstances, and the potential for damaging prospects for recovery, Sector sees the prospects for any interest rate changes before early 2014 as very limited.

6. New Borrowing

The Council's borrowing portfolio is attached at Annex 3. No new borrowing was undertaken during the quarter.

7. Debt Rescheduling

At this time it is not of benefit to the Council to consider rescheduling of its long-term debt, as advised by Sector.

8. Compliance with Treasury and Prudential Limits

The Council has operated within the treasury limits and Prudential Indicators and in compliance with the Council's Treasury Management Practices.

9. Iceland update

The Icelandic Supreme Court found in favour of UK local authorities and other UK wholesale depositors last year. This judgment means that UK local authorities' claims have been recognised as deposits with priority status over other creditors' claims and that they will be paid first when it comes to getting their money back.

It is estimated that we will receive approximately 100% of the value of the deposit back. However, this will fluctuate due to currency valuations as the sums are being paid in sterling, US dollars, Euros and Icelandic Kroner. To date we have received £438,264, leaving a balance of £561,736, as shown in Annex 2.

10. **Appendices**

Annex 1 – Sector treasury management report for quarter two
Annex 2 – Investment portfolio as at 30th September 2012
Annex 3 – Borrowing portfolio as at 30th September 2012
Annex 4 – Investment portfolio as at 19th November 2012

11. **Background Papers**

Medium Term Financial Plan 2011/12– 2013/14
Medium Term Financial Plan 2012/13 – 2014/15

Contact Officer: Helen Lamb, extension 2063

Treasury Management Update

Quarter Ended 30th September 2012

The CIPFA (the Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (TMSS, annual and mid year reports). This report therefore ensures this council is implementing best practice in accordance with the Code.

1. Economic background:

- During the quarter ended 30 September:
 - Indicators suggested that economic growth returned after three quarters of recession;
 - Retail sales held up well and spending off the high street strengthened;
 - Employment continued to rise at a strong pace;
 - Inflation failed to make further downward progress;
 - The Monetary Policy Committee (MPC) announced more asset purchases;
 - UK equity and government bond prices rose;
 - The US economy continued to recover, but at a disappointingly slow pace.
- GDP growth in quarter ended September looks set to be positive for the first quarter in a year. Although the CIPS/Markit business surveys weakened in July, they recovered in August to a level consistent on past form with quarterly GDP growth of about 0.2%.
- In addition, the surveys seem to have been unaffected by the impact of the lost working day for the Queen's Jubilee, which will have shifted some production from June to July. Indeed, the official data improved significantly at the start of Q3. Following its 2.4% monthly drop in June, industrial production rose by 2.9% in July. The overall trade deficit shrank from £4.3bn in June to £1.5bn in July.
- Furthermore, the CIPS surveys exclude the retail sector and high street spending has held up relatively well. The official measure of retail sales volumes grew by 0.3% in July. And while sales volumes fell by 0.2% in August – suggesting that the Olympics Games did not provide much of a boost to retail spending – retail sales should still support overall GDP growth in Q3. Even if sales volumes just hold steady in September, then sales will be 0.9% higher than in the second quarter.
- Spending off the high street has also shown signs of recovering. In particular, private new car registrations were 26% and 12% higher than a year ago in July and August respectively. Moreover, Olympics ticket sales that occurred in previous quarters will be counted as household spending in the third quarter.

- As a result, GDP growth could show a healthy quarterly rise to +0.6% in Q3. However, given that the level of GDP is likely to have been boosted by both the Queen's Jubilee and the Olympics, a renewed fall in output in Q4 seems likely.
- Meanwhile, the labour market has continued to recover. The Labour Force Survey measure of employment rose by 236,000 in the three months to July and the claimant count measure of unemployment fell by 15,000 in August – the biggest fall since June 2010. That said, most of the rise in employment was driven by growing self and part-time employment, rather than full-time. Moreover, 91,000 of the new jobs that were created were in London – around 40% of the total – despite the fact that the capital accounts for only 15% or so of overall employment. The Olympics would therefore seem to have provided a temporary boost to the national employment figures.
- Pay growth has remained modest. Annual growth of overall average earnings ticked up from 1.3% in June to 1.4% in July. Given the rate of inflation over this period, real pay continued to fall on an annual basis.
- The underlying trend in house prices still seems to be broadly down. The Halifax measure of house prices fell by 0.7% in July and a further 0.4% in August. The Nationwide's measure fared better – although it fell by 0.8% in July, it then rose by 1.3% in August. Mortgage approvals for new house purchases have also remained weak. The total of 47,300 in July was below the average of 50,700 seen in the first half of 2012.
- Banks' funding costs continued to ease over the quarter. This reflects the Bank of England's continued provision of low cost liquidity to banks in tranches of up to £5bn a month, the start of the Funding for Lending Scheme and the easing of tensions in Eurozone debt markets to which UK banks are exposed. But so far, quoted borrowing rates on most types of new mortgages have held broadly steady.
- Meanwhile, the trend in public borrowing has continued to deteriorate. A continuation of the pattern seen in the first five months of the fiscal year (since April) would mean that borrowing in 2012/13 as a whole would come in at around £145bn, compared to the Office for Budget Responsibility's March forecast of £120bn. And while the Government announced some new measures to get credit flowing around the economy – including a £10bn guarantee to help housing associations and private developers raise funds to build new homes, and plans for a "business bank" – this largely amounted to tinkering at the edges of the fiscal austerity plans.
- Inflation struggled to make further downward progress in Q3. Indeed, CPI inflation rose from 2.4% in June to 2.6% in July, before falling back to 2.5% in August. While inflation should drop to around 2% in September on the anniversary of last year's chunky rises in utility prices, further falls in inflation over the next few months look unlikely as a result of the recent increase in commodity prices. Oil prices rose from \$97 per barrel at the end of June to around \$113 per barrel at the end of September, while global agricultural prices have risen by around 25%.
- The MPC voted in July to undertake £50bn additional asset purchases over the following four months. Although interest rate markets are pricing in a decent chance of a cut in official interest rates within the next few months, Mervyn King is opposed to this.
- Asset prices in the UK and overseas largely continued to rise over the course of the third quarter. 10-year gilt yields fell from about 1.85% to 1.70% (although prices

were volatile during this period), while the FTSE 100 recovered from 5,570 to 5,760. The pound also strengthened against both the euro and the dollar, from €1.23 to €1.25 and from \$1.56 to \$1.62 respectively.

- The US economy's recovery has remained fairly weak. A weighted average of the manufacturing and non-manufacturing ISM indices points to annualised GDP growth of no more than 2.0% in the third quarter. Increases in total non-farm payroll employment were disappointing, up only 97,000 in July and 120,000 in August, compared to an average increase of 142,000 in the second quarter.
- In the Eurozone, market sentiment improved following the ECB's pledge to buy "unlimited" quantities of peripheral government's sovereign debt in early September, provided that those countries have formally requested a bail out. However, peripheral Eurozone bond yields began to rise again at the end of the quarter due to Greece increasingly looking as if it will now have to ask for a third bail out and Spain continued prevaricating over making a formal request for a bail out when all the evidence indicates that this will be unavoidable. As for GDP growth, the composite Eurozone PMI points to a quarterly drop in GDP of about 0.4% in Q3.

2. Interest rate forecast

The Council's treasury advisor, Sector, provides the following forecast:

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%
5yr PWLB rate	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.30%
10yr PWLB rate	2.50%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.20%	3.30%
25yr PWLB rate	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%
50yr PWLB rate	3.90%	3.90%	3.90%	4.00%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%

Sector undertook a review of its interest rate forecasts following the issue of the Bank of England Inflation Report for August 2012. Consequently, it pushed back the first rise in Bank Rate from Q1 2014 to Q4 2014, as well as lowering the pace of rises in gilt yields.

The Bank of England forecasts of the speed and strength of recovery and rate of reduction of CPI inflation over the last four years had been attracting increasing criticism for being consistently over optimistic. In this latest Inflation Report, the Bank changed its position significantly in as much as it markedly downgraded its forecasts for the strength and speed of recovery in GDP growth. Whereas previously it had consistently been forecasting a strong recovery to over 3% p.a., it was now only forecasting growth to recover to around 2% during the period from early 2013 to the end of 2015.

SUMMARY ECONOMIC OUTLOOK

Eurozone

- A new storm is brewing as Greece, yet again, is failing to meet the demands of the austerity programme in cutting government expenditure, increasing tax revenue and selling off public sector assets. German patience with this situation must be close to breaking point and without German support Greece will run out of cash within the next couple of months. Markets are currently predicting an end game where Greece is eventually forced to exit (dubbed “Grexit”) the Eurozone and return to the drachma.
- More worryingly, sovereign bond yields for both Spain and Italy rose sharply to levels previously deemed unsustainable. Spain is now actively looking at what might be acceptable terms for receiving a bailout and surrendering national sovereignty to external oversight by the IMF and Eurozone paymasters.
- One possible, but very unlikely, solution to the Eurozone debt crisis would be the issue of Eurobonds. These would collectivise all debt in the Eurozone and reduce the Greek element in total Eurozone debt to an almost insignificant percentage.
- Austerity programmes in various countries are reducing GDP growth rates.

US

- GDP is weakening alongside the recovery in jobs growth.
- The Federal Reserve predicts that current ultra-low interest rates may be warranted until at least mid-2015.
- There is political gridlock ahead of the November 2012 Presidential elections, for major fiscal action.
- The new President is unlikely to make a significant fiscal impact on the US economy in 2013 as the unsustainably high budget deficit will need to be urgently addressed.
- The housing market is at last beginning to show tentative signs of picking up.
- Confidence figures among US consumers rose to a seven month high in September as the Conference Board’s index of optimism rose from 61.3 to 70.3.

China

- There are increasing concerns that efforts to stimulate the economy could fail to avoid a hard landing. There are now many parts of the economy flashing distress signals.
- A fresh round of support is widely expected. This could coincide with the change in the party hierarchy which is due to take place at the 18th Party Congress which begins in early November.

UK

- The UK has suffered its worst and slowest recovery from recession of any of the five recessions since 1930.

- The Bank of England August 2012 Inflation Report again pushed back the timing of a return to trend growth and the rate at which inflation will fall back towards the target rate of 2%.
- 40% of UK GDP is dependent on overseas trade; high correlation of UK growth to US and EU GDP growth means that the UK economy is likely to register weak growth in the next two years.
- Consumers are likely to remain focused on paying down debt; weak consumer sentiment and job fears will all act to keep consumer expenditure suppressed.
- It is likely to take a lot longer to eliminate the structural budget deficit than in the current plans of the Coalition government. These plans will need to be updated to incorporate the impact of weak growth in the Eurozone and US depressing UK GDP growth, and thus lower expectations for increases in tax revenues.
- The Coalition Government and the Bank of England have put in place a programme of action to improve the availability of credit in the economy. However, it will take time for this to feed through into a significant positive impact on GDP growth in the economy.
- There is little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- Eurozone concerns and the potential for further QE to stimulate GDP growth are likely to keep gilt yields depressed during the next twelve months.
- UK gilts are likely to retain safe haven status from Eurozone worries for some time. Eurozone politicians struggle to reach agreement on how to replace impressive sounding words with actually implementing an effective platform of measures to conclusively subdue the debt crisis
- However, there are improvements in the prospects for the UK economy, though there is still a long way to go.
 - UK banks have made huge progress since 2008 in correcting their over-extended balance sheets, though credit availability still remains weak.
 - Consumers have also made progress in correcting their personal over-borrowed balance sheets so that personal debt relative to incomes is now down to the lowest level since 2004. However, at 146%, it still remains the highest of any G7 nation.
 - The car industry is well on track to increase production. This is expected to see an increase from about 1m cars per annum in 2009 to 2.25m by 2016, much of which will be exported. In addition, car component firms are moving production to the UK in order to cost effectively meet the consequent increase in demand for their products. The car industry has also made steady progress in reducing its labour costs to be below those of Germany, France, Italy and even Spain.
 - The fall in price inflation relative to increases in pay inflation meant that household disposable income was less affected in quarter ended June, the biggest improvement in three years.
 - Recent increases in employment also strengthen consumer expenditure, tax receipts and reduce Government expenditure on benefits.

- The UK is less encumbered to hindrances to new investment and new employment than countries in the Eurozone and has a competitive currency.
- The UK has a more effective approach to stimulating growth than in the Eurozone in the areas of monetary policy and direct action to improve the supply of liquidity to the real economy

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Key areas of uncertainty include:

- The impact of the Eurozone crisis on financial markets and the banking sector;
- The impact of the UK Government's austerity plan on confidence and growth;
- Monetary policy action failing to stimulate growth in western economies;
- The potential for weak growth or recession in the UK's main trading partners - the EU and US;

The overall balance of risks remains weighted to the downside. Sector believes that the longer run trend is for gilt yields and PwLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However, near-term, QE is likely to depress yields and further QE thereafter may lead to a reassessment of Sector's central forecast

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before early 2014 as very limited indeed. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2012/13, which includes the Annual Investment Strategy, was approved by the Council on 7th March 2012. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep investments short term with a maximum duration of 3 months.

This limit will apply to all entities on the suggested Sector Credit List with the following exceptions:

1. UK Government and related entities such as Local Authorities. Their suggested duration limit will remain at 5yrs.
2. UK semi-nationalised institutions (Lloyds / RBS). We continue to view the current significant UK ownership of these entities as providing significant comfort to investors.
3. Money Market Funds.

A full list of investments held as at 30th September 2012, compared to Sector's counterparty list, and changes to Fitch, Moody's and S&P's credit ratings during quarter ended 30th September 2012 are shown in Annex 2.

Investment rates available in the market have continued at historically low levels. £5m of in-house funds were available for investment purposes during the quarter. These funds were available on a temporary basis, and were invested for a 3 month period with Bank of Scotland. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and the changes due to Housing Finance Reform. The Council holds £19m core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for six months ended 30th September 2012

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.40%	1.13%	£153,000

As illustrated, the Council outperformed the benchmark by 0.73%. The Council's budgeted investment return for 2012/13 is £287,000, and performance for the year to date is £9,500 above budget.

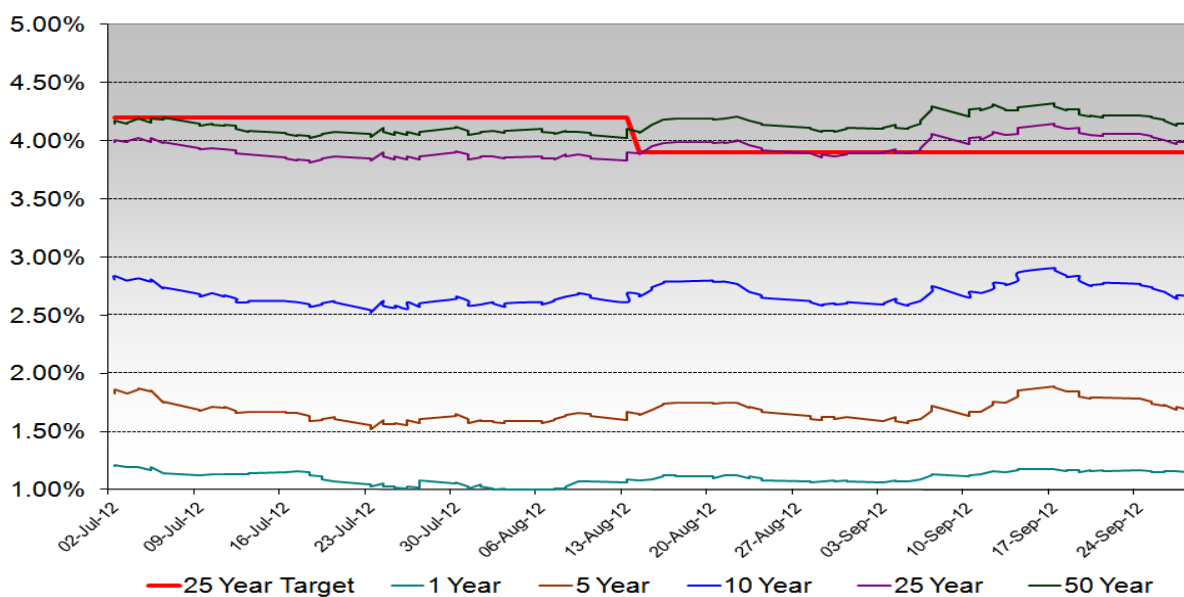
4. New borrowing:

No borrowing was undertaken during the quarter.

As shown below, interest rates across the interest rate yield curve generally fell during the quarter. The low points during the quarter were generally seen during June.

PWLB rates quarter ended 30.9.2012

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.00%	1.52%	2.52%	3.81%	4.02%
Date	02/08/12	23/07/12	23/07/12	18/07/12	18/07/12
High	1.21%	1.89%	2.91%	4.15%	4.32%
Date	02/07/12	17/09/12	17/09/12	17/09/12	17/09/12
Average	1.10%	1.68%	2.68%	3.94%	4.14%



Borrowing in advance of need.

This Council has not borrowed in advance of need during the quarter ended 30th September 2012 and has no intention to borrow in advance in 2012/13.

5. Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and structure of interest rates following increases in PWLB new borrowing rates in October 2010. No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits (affordable capital expenditure limits – Scottish local authorities). The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in appendix 1.

APPENDIX 1: Prudential and Treasury Indicators as at 30th September 2012:

Prudential Indicator	2012/13 Budget £000	Quarter 2 Actual £000
Authorised limit for external debt	111,000	111,000
Operational boundary for external debt	105,473	105,473
Net borrowing	91,266	91,266
Capital Financing Requirement (CFR)	98,233	98,233
Maturity structure of borrowing limits:		
Under 12 months	10,186	10,186
12 months to 2 years	2,837	2,837
2 years to 5 years	6,095	6,095
5 years to 10 years	11,526	11,526
10 years and above	76,226	76,326

Investec Funds as at 30/09/12 - Inhouse as at 30/09/12

Annex 2

Investments held as at 30th September 2012 compared to Sector's counterparty list:

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Investec Investments							
ING Bank	Certificate of deposit	A+/F1+/1	12/10/12	0.480	2,500,000	Netherlands - Gov 'AAA'	
Lloyds	Certificate of deposit	AA-/F1+/1	12/10/12	0.500	500,000	UK - Gov 'AAA'	
Standard Chartered Bank	Certificate of deposit	AA-/F1+/1	28/02/13	0.740	1,000,000	UK - Gov 'AAA'	
Nationwide BS	Certificate of deposit	A/F1/1	10/01/13	0.600	1,500,000	UK - Gov 'AAA'	
Nordea Group	Certificate of deposit	AA-/F1+/1	26/11/12	0.500	1,000,000	Sweden - Gov 'AAA'	
Rabobank	Certificate of deposit	AA/F1+/1	16/08/13	1.160	1,200,000	Netherlands - Gov 'AAA'	
Rabobank	Certificate of deposit	AA/F1+/1	25/01/13	0.640	698,911	Netherlands - Gov 'AAA'	
HSBC Securities	Certificate of deposit	AA/F1+/1	23/11/12	0.500	1,400,161	UK - Gov 'AAA'	
					9,799,073		
European Bank for reconstruction	Fixed bond		01/12/13	0.610	314,895		
UK Treasury	Gilt inflation bonds		07/09/22	1.650	634,979		
UK Treasury Bills	Commercial Paper		11/04/13	0.310	1,998,854		
GBP cash - settled balance					72,958		
					12,820,759		
Inhouse Investments - Portfolio							
Landisbanke Islands	Term deposit	Not rated by sect	26/11/08	6.170	561,736	Iceland - Gov 'BBB-'	Duration 364 days - Repayment received £438,263.86
Lloyds	Term deposit	A/F1/1	17/12/12	2.500	3,000,000	UK - Gov 'AAA'	364 days
Natwest	Bond	A/F1/1	23/11/12	2.000	1,000,000	UK - Gov 'AAA'	364 days
Lloyds	Term deposit	A/F1/1	11/04/13	3.000	2,000,000	UK - Gov 'AAA'	364 days
Bank of Scotland	Term deposit	A/F1/1	08/11/12	1.350	5,000,000	UK - Gov 'AAA'	91 days
					11,561,736		
					Total portfolio		
					24,382,495		
Call Accounts/MMF							
	Balance as at 30/09/12	Rate					
DMA	0						
Global Treasury Fund	2,040,106	0.49%					
SIBA	2,768,744	0.75%					
SIBA SEEDA	55,287	0.50%					
SIBA HCA	47,090	0.50%					
SIBA ASDA	10,947	0.50%					
Alliance & Leicester	24	0.80%					
BoS	14,477	0.75%					
Barclays	3,500,000	0.75%					
Abbey	1						
	8,436,677						

Dover District Council Borrowing

Annex 3

INT. TYPE	Date Loan Taken Out	Date Loan Matures	REPAYMNT DATES	LOAN NO	PRINCIPAL BALANCE 01-Apr-12	INT RATE %	Annual Interest 2012/13	Lender	Type of loan
Fixed	02/10/97	02/10/57	APR-OCT	479961	1,000,000	6.75	67,500	PWLB	Principal due on maturity
Fixed	28/05/97	28/05/57	MAY-NOV	479542	2,000,000	7.38	147,500	PWLB	Principal due on maturity
Fixed	23/08/46	23/06/26	JUNE-DEC	131582	781	2.50	20	PWLB	Equal installment of principal
Fixed	27/09/46	27/06/26	JUNE-DEC	131583	146	2.50	4	PWLB	Equal installment of principal
Fixed	16/11/01	30/09/26	SEPT-MAR	486237	1,000,000	4.75	47,500	PWLB	Principal due on maturity
Variable	16/12/02	16/12/42	JUNE-DEC	N/A	3,000,000	4.75	142,500	Dresder Bank	Repayable if called by bank
Fixed	26/03/12	26/03/12	SEPT-MAR	499853	90,473,000	3.18	31,529	PWLB	Annuity
					97,473,927		436,553		

Investec Funds as at 31/10/12 - Inhouse as at 19/11/12

Annex 4

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Investec Investments							
ING Bank	Certificate of deposit	A+/F1+/1	12/02/13	0.520	1,900,000	Netherlands - Gov 'AAA'	
HSBC Securities	Certificate of deposit	AA/F1+/1	14/01/13	0.490	1,100,014	UK - Gov 'AAA'	
Standard Chartered Bank	Certificate of deposit	AA-/F1+/1	28/02/13	0.560	1,000,000	UK - Gov 'AAA'	
Nationwide BS	Certificate of deposit	A/F1/1	10/01/13	0.490	1,500,000	UK - Gov 'AAA'	
Nordea Group	Certificate of deposit	AA-/F1+/1	26/11/12	0.470	1,000,000	Sweden - Gov 'AAA'	
Rabobank	Certificate of deposit	AA/F1+/1	16/08/13	0.900	1,200,000	Netherlands - Gov 'AAA'	
Rabobank	Certificate of deposit	AA/F1+/1	25/01/13	0.490	698,911	Netherlands - Gov 'AAA'	
HSBC Securities	Certificate of deposit	AA/F1+/1	23/11/12	0.470	1,400,161	UK - Gov 'AAA'	
					9,799,087		
European Bank for reconstruction	Fixed bond		01/12/13	0.600	314,895		
UK Treasury	Gilt inflation bonds		07/09/22	1.790	634,979		
UK Treasury Bills	Commercial Paper		12/11/12	0.520	1,998,854		
GBP cash - settled balance					72,638		
					12,820,453		

In-house Investments - Portfolio

						Duration	
Gandisbanke Islands	Term deposit	Not rated by sectc	26/11/08	6.170	561,736	Iceland - Gov 'BBB-'	364 days - Repayment received £438,263.86
Lloyds	Term deposit	A/F1/1	17/12/12	2.500	3,000,000	UK - Gov 'AAA'	364 days
Natwest	Bond	A/F1/1	23/11/12	2.000	1,000,000	UK - Gov 'AAA'	364 days
Lloyds	Term deposit	A/F1/1	11/04/13	3.000	2,000,000	UK - Gov 'AAA'	364 days
Bank of Scotland	Term deposit	A/F1/1	07/01/13	1.350	2,000,000	UK - Gov 'AAA'	60 days
Bank of Scotland	Term deposit	A/F1/1	08/02/13	1.150	2,000,000	UK - Gov 'AAA'	92 days
Bank of Scotland	Term deposit	A/F1/1	07/11/13	1.900	1,000,000	UK - Gov 'AAA'	364 days
					11,561,736		
Total portfolio					24,382,189		

Call Accounts/MMF

	Balance at 19/11/12	Rate
DMA	0	
Global Treasury Fund	2,040,106	0.34%
SIBA	8,718,805	0.75%
SIBA SEEDA	55,356	0.50%
SIBA HCA	47,149	0.50%
SIBA ASDA	10,961	0.50%
Alliance & Leicester	24	0.80%
BoS	14,486	0.75%
Barclays	3,500,000	0.75%
Abbey	1	
14,386,888		
		38,769,076



Grant Thornton

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12 November 2012

Dear Nadeem

Planned audit fee for 2012/13

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £70,680. which compares to the audit fee of 117,800 for 2011/12, a reduction of 40%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/scaleoffees1213.

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 as our work progresses.

Chartered Accountants

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Scope of the audit fee

Our fee is 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 for 2012/13. It covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money (VFM) conclusion)
- our work on your whole of government accounts (WGA) return.

Value for money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our VFM conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and will provide a separate report of our findings.

Our planning to date has not identified any additional work which we are required to undertake to support our VFM conclusion. We will continue to assess the Council's arrangements and discuss any additional work required during the year.

Certification of grant claims and returns

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee for grant certification for the Council is £26,450.

Billing schedule

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarters in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

Main Audit fee	
	£
December 2012	35,340
January 2013	17,670
March 2013	17,670
	70,680
Grant Certification	
June 2013	26,450
Total	97,130

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2012 to March 2013. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in July to September 2013 and work on the whole of government accounts return in September 2013.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2012 to March 2013	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	July to September 2013	Report to those charged with governance	This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	January to September 2013	Report to those charged with governance	As above
Financial resilience	January to September 2013	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2013	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2013	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2013	Grant certification report	A report summarising the findings of our grant certification work

Our team

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

	Name	Phone Number	E-mail
Engagement Lead	Emily Hill	020 7728 3259 07780 456 184	Emily.Hill@uk.gt.com
Engagement Manager	Lynn Clayton	01293 554 039	Lynn.H.Clayton@uk.gt.com
Audit Executive	Sarah Bubb	01293 554 030	Sarah.Bubb@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

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 Paul Dossett, our Public Sector Assurance regional lead partner Paul.Dossett@uk.gt.com.

Yours sincerely



Emily Hill
For Grant Thornton UK LLP

cc. Mike Davis, Director of Finance, Housing and Communities, Dover District Council