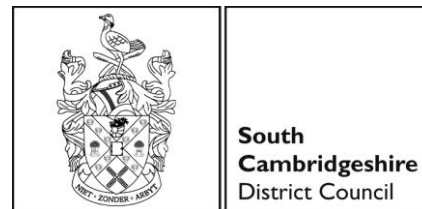


South Cambridgeshire Hall  
Cambourne Business Park  
Cambourne  
Cambridge  
CB23 6EA

t: 03450 450 500

f: 01954 713149

[www.scambs.gov.uk](http://www.scambs.gov.uk)



18 January 2018

To: Chairman – Councillor Andrew Fraser  
Vice-Chairman – Councillor Grenville Chamberlain  
Members of the Audit and Corporate Governance Committee – Councillors  
John Batchelor, Christopher Cross, Roger Hall, Douglas de Lacey, Tony Orgee  
and John Williams

Quorum: 3

Dear Councillor

You are invited to attend the next meeting of **AUDIT AND CORPORATE GOVERNANCE COMMITTEE**, which will be held in **SWANSLEY ROOM A AND B - GROUND FLOOR** at South Cambridgeshire Hall on **FRIDAY, 26 JANUARY 2018** at **9.30 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully  
**Beverly Agass**  
Chief Executive

**The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.**

---

<b>AGENDA</b>		<b>PAGES</b>
<b>1. Apologies for Absence</b> To receive Apologies for Absence from Committee members.		
<b>2. Declarations of Interest</b>		
<b>3. Minutes of Previous Meeting</b> To confirm the minutes of the meeting held on 29 September 2017 as a correct record.		<b>1 - 4</b>
<b>EXTERNAL AUDIT REPORT</b>		
<b>4. External Audit: Grant Certification Report for 2016-17</b>		<b>5 - 12</b>
<b>INFORMATION ITEMS</b>		
<b>5. Achievement of Statutory Accounts Deadline 2017-18</b>		<b>13 - 18</b>

6. **Statement of Accounts 2016-17 Update**

7. **Treasury Management Annual Report 2016-17**

19 - 24

8. **Matters of Topical Interest**

9. **Date of Next Meeting**

Friday 23 March at 9:30am

### **OUR LONG-TERM VISION**

South Cambridgeshire will continue to be the best place to live, work and study in the country. Our district will demonstrate impressive and sustainable economic growth. Our residents will have a superb quality of life in an exceptionally beautiful, rural and green environment.

### **OUR VALUES**

We will demonstrate our corporate values in all our actions. These are:

- Working Together
- Integrity
- Dynamism
- Innovation

## **GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL**

### **Notes to help those people visiting the South Cambridgeshire District Council offices**

While we try to make sure that you stay safe when visiting South Cambridgeshire Hall, you also have a responsibility for your own safety, and that of others.

#### **Security**

When attending meetings in non-public areas of the Council offices you must report to Reception, sign in, and at all times wear the Visitor badge issued. Before leaving the building, please sign out and return the Visitor badge to Reception.

Public seating in meeting rooms is limited. For further details contact Democratic Services on 03450 450 500 or e-mail [democratic.services@scambs.gov.uk](mailto:democratic.services@scambs.gov.uk)

#### **Emergency and Evacuation**

In the event of a fire, a continuous alarm will sound. Leave the building using the nearest escape route; from the Council Chamber or Mezzanine viewing gallery this would be via the staircase just outside the door. Go to the assembly point at the far side of the staff car park opposite the staff entrance

- **Do not** use the lifts to leave the building. If you are unable to use stairs by yourself, the emergency staircase landings have fire refuge areas, which give protection for a minimum of 1.5 hours. Press the alarm button and wait for help from Council fire wardens or the fire brigade.
- **Do not** re-enter the building until the officer in charge or the fire brigade confirms that it is safe to do so.

#### **First Aid**

If you feel unwell or need first aid, please alert a member of staff.

#### **Access for People with Disabilities**

We are committed to improving, for all members of the community, access to our agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you. All meeting rooms are accessible to wheelchair users. There are disabled toilet facilities on each floor of the building. Infra-red hearing assistance systems are available in the Council Chamber and viewing gallery. To use these, you must sit in sight of the infra-red transmitter and wear a 'neck loop', which can be used with a hearing aid switched to the 'T' position. If your hearing aid does not have the 'T' position facility then earphones are also available and can be used independently. You can get both neck loops and earphones from Reception.

#### **Toilets**

Public toilets are available on each floor of the building next to the lifts.

#### **Recording of Business and Use of Mobile Phones**

We are open and transparent about how we make decisions. We allow recording, filming and photography at Council, Cabinet and other meetings, which members of the public can attend, so long as proceedings at the meeting are not disrupted. We also allow the use of social media during meetings to bring Council issues to the attention of a wider audience. To minimise disturbance to others attending the meeting, please switch your phone or other mobile device to silent / vibrate mode.

#### **Banners, Placards and similar items**

You are not allowed to bring into, or display at, any public meeting any banner, placard, poster or other similar item. Failure to do so, will result in the Chairman suspending the meeting until such items are removed.

#### **Disturbance by Public**

If a member of the public interrupts proceedings at a meeting, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared. The meeting will be suspended until order has been restored.

#### **Smoking**

Since 1 July 2008, South Cambridgeshire District Council has operated a Smoke Free Policy. No one is allowed to smoke at any time within the Council offices, or in the car park or other grounds forming part of those offices.

#### **Food and Drink**

Vending machines and a water dispenser are available on the ground floor near the lifts at the front of the building. You are not allowed to bring food or drink into the meeting room.

This page is left blank intentionally.

# Agenda Item 3

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Minutes of a meeting of the Audit and Corporate Governance Committee held on  
Friday, 29 September 2017 at 9.30 a.m.

PRESENT: Councillor Andrew Fraser – Chairman  
Councillor Grenville Chamberlain – Vice-Chairman

Councillors: John Batchelor  
Roger Hall  
Tony Orgee

Christopher Cross  
Douglas de Lacey  
John Williams

Officers: Patrick Adams  
Jean Cole  
Alex Colyer  
Rory McKenna  
Caroline Ryba

Senior Democratic Services Officer  
Interim Principal Accountant  
Executive Director (Corporate Services)  
Principal Lawyer & Deputy Monitoring Officer  
Head of Finance

External: Steve Crabtree  
Suresh Patel  
Tony Poynton

Shared Head of Internal Audit  
Ernst & Young  
Ernst & Young

Councillor Simon Edwards was in attendance, by invitation.

### 1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Simon Crocker.

### 2. DECLARATIONS OF INTEREST

Councillor John Batchelor declared a non-pecuniary interest as Chairman of the Combined Authority Scrutiny Committee.

Councillor Andrew Fraser declared a non-pecuniary interest as Chairman of the Combined Authority Audit Committee and as a Non Executive Director of Ermine Street Housing.

### 3. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 30 June 2017 were agreed as a correct record.

### 4. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Steve Crabtree, Shared Head of Internal Audit, presented this report that invited the Committee to review the progress made on the delivery of the 2017/18 Internal Audit plan up to 31 August 2017.

#### **Ermine Street Housing (Operational Processes)**

Steve Crabtree reported that the recommendations made by the auditors had been accepted by the Board.

#### **National Fraud Initiative**

Steve Crabtree reported that there were no significant issues regarding this ongoing assessment.

#### **Safeguarding**

Steve Crabtree reported that the three agreed actions with the “high” category had been

implemented.

### **Licensing**

The Committee were assured that the Council now had procedures in place to ensure that drivers who were over 64 provided the authority with annual medical reports.

### **Core Systems Assurance Work**

It was noted that assurance work on Accounts Payable, Cash & Bank and Main Accounting would be linked to the implementation of the new Main Financial System across all three authorities.

It was noted that a new Shared Head of Internal Audit would be appointed in December. On behalf of the Committee the Chairman thanked Steve Crabtree for all the work he had done for the Council and wished him well for the future.

The Committee **NOTED** the report.

## **5. EXTERNAL AUDIT RESULTS REPORT 2016/17**

Suresh Patel introduced External Audit's Results report for 2016/17 by explaining that work was still ongoing. The Council had provided its statement of accounts at the end of July and so did not meet the end of June deadline. This had delayed the start of the audit and so External Audit were not yet in a position to issue an unqualified audit opinion on the Statement of Accounts.

### **Staff shortages**

The Executive Director explained that due to circumstances outside the Council's control accountancy had been left short-staffed and this had resulted in work being carried out later than hoped. He commended the work of the Interim Principal Accountant for the work she had completed, with very little handover. Previously the Council had relied on manual systems and it was hoped that the new Financial Management System and permanent recruitment could help to resolve this, although the Head of Finance warned that the introduction of the new Financial Management System was proving to be a time-consuming project.

The Chairman suggested that the Council should consider employing at least one extra member of staff in accountancy to meet the new deadline for the 2017/18 accounts.

### **Value of Council's dwellings**

It was noted that the External Auditors were challenging the Council and its valuer regarding the stated value of the Council's dwellings, as the overall valuation had decreased from last year, which appeared unlikely in light of the overall market trend. The Executive Director explained that it was probable that the District Valuer had over-estimated the valuation of the Council's dwellings for 2015/16 and this was only coming to light now, with the use of a different assessor. The Executive Director expressed his disappointment in the fact that the External Auditors had not challenged the valuation figures for the Council's dwellings when they were first reported in February 2017. External audit commented that typically the value of council dwelling was not a risk area and as such was not an area of audit focus in the early part of the year.

### **Timescales**

External Audit also highlighted that the Council had yet to complete all of the group accounts within the statements and the cash flow. Suresh Patel explained that External Audit would need to carry out sufficient work to be satisfied that the Council's accounts, and in particular the valuation of its dwelling, was materially correct and this would require at least a week to resolve and conclude their report.

Members of the Committee expressed concern at the fact that this was the second year in a row that the Council had been unable to have the accounts signed off by the end of September and next year the deadline was being brought forward to the end of July.

The Chairman stated that the Committee would monitor the situation and formulate a plan for ensuring that next year's accounts were closed within the new deadline set by the Government. To that end the Committee agreed to hold a meeting in January 2018 to review the procedure for agreeing next year's accounts. It was hoped that the new Financial Management System would be in place by then.

#### **Balance sheet**

It was noted that the value of council dwellings related to the value of assets in the group accounts and did not affect the general fund balance for 2016/17. The Balance Sheet had been audited and the Council's overall financial position was as expected. The Committee understood that the accounts were fundamentally sound.

#### **Summary of differences**

Tony Poynton brought the Committee's attention to page 20 of the report, which listed the misstatements in the financial statements or disclosures identified during the audit which Management have agreed to correct. In response to questioning, he explained that there were a larger number of misstatements than he would have expected.

#### **South Cambs Ltd**

In response to questioning Tony Poynton explained that the South Cambs Ltd financial figures were included in the Balance Sheet, but had been excluded from the notes. The Executive Director explained that the implications of changing interest rates on South Cambs Ltd had been included in the Business Plan considered by Cabinet in February.

The Committee **NOTED** the report.

### **6. REVIEW OF STATEMENT OF ACCOUNTS**

The Executive Director presented this report and suggested that, as it was not possible for the Committee to agree the Statement of Accounts, the power of approval should be delegated to the Chairman in consultation with the Executive Director. It was noted that with the exception of the value of assets, the accounts were ready to be agreed.

The Committee **AGREED**

- A) That approval of the 2016/17 Statement of Accounts be delegated to the Chairman of the Audit and Corporate Governance Committee in consultation with the Executive Director (Corporate Services).
- B) That the Chairman be authorised to sign the letter of representation on behalf of the Council.

### **7. LETTER OF REPRESENTATION**

This item had been discussed under agenda item 6.

### **8. ANNUAL GOVERNANCE STATEMENT AND CODE OF CORPORATE GOVERNANCE 2016/17**

The Committee considered the Annual Governance Statement 2016/17.

**Combined Authority**

In response to questioning the Executive Director explained that the cost to this Council for its work on the governance arrangements of the Combined Authority would be covered by the Combined Authority.

**Minority report**

The conclusion in the Annual Governance Statement stated that the Committee reported that “the council was well-governed, and performed well.” Councillors John Batchelor and John Williams considered that this was a political statement and as opposition councillors they could not support it.

The Committee

**AGREED to**

- A) Endorse the draft Annual Governance Statement for approval and sign-off by the Leader.
- B) Note that the final version of the Statement will be updated following the receipt of the External Auditors Opinion.
- C) Endorse the Code of Corporate Governance for the Council.

**9. AUDIT COMMITTEE BRIEFING PAPER**

Suresh Patel hoped that the Committee would find the attached “Local Government audit committee briefing” paper useful.

**Housing companies**

Suresh Patel assured the Committee that any borrowing by the Council to provide affordable housing would end up in the accounts. The Executive Director explained that the Government were likely to tighten the rules on the setting up of housing companies in order to manage the risks involved. He assured the Committee that the Council had knowledge of the housing investment market and in managing any related risks. It was noted that the Council had received £670,000 from Ermine Street Housing Ltd in the last financial year.

The Committee **NOTED** the briefing paper.

**10. MATTERS OF TOPICAL INTEREST**

The Chairman reminded members of the Committee that they had been invited to the Audit Committee Members’ Forum being run by Ernst and Young at the Cambridge offices on the morning of Monday 6 November.

**11. DATE OF NEXT MEETING**

The Committee agreed to schedule an extra meeting on Friday 26 January 2018 to discuss the timetable for signing off the 2017/18 Statement of Accounts.

The next meeting will be held on Friday 24 November 2017 at 9:30am.

---

**The Meeting ended at 11.00 a.m.**

---



# Agenda Item 4

## **Certification of claims and returns annual report 2016-17**

South Cambridgeshire District Council

January 2018

Ernst & Young LLP



Building a better  
working world

Audit and Corporate Governance Committee Members  
South Cambridgeshire District Council  
South Cambridgeshire Hall  
Cambourne Business Park  
Cambourne  
CB23 6EA

8 January 2018

Direct line: +44 (0)20 7951 2340  
Email: [spatel22@uk.ey.com](mailto:spatel22@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2016-17 South Cambridgeshire District Council**

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on South Cambridgeshire District Council's 2016-17 claims and returns.

### **Scope of work**

The Council administers housing benefits on behalf of the Department of Work and Pensions (DWP) and claims subsidy on the expenditure it incurs. DWP requires appropriately qualified auditors to certify the claim for subsidy the Council makes.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the DWP and did not undertake an audit of the claim.

In addition to this, the Council engages us to act as reporting accountants in relation to the pooling of housing capital receipts return outside the PSAA's regime. This work is yet to be undertaken.

### **Summary**

Section 1 of this report outlines the results of our work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £27,075,734. We met the submission deadline issuing a qualification letter on 28 November 2017. Details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments increased subsidy due to the Council of £135,624.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016-17 were published by PSAA in March 2016 and are available on its website ([www.psaa.co.uk](http://www.psaa.co.uk)).

We welcome the opportunity to discuss the contents of this report with you at the next Audit and Corporate Governance Committee.



Yours faithfully

**Suresh Patel**  
Associate Partner  
Ernst & Young LLP  
Enc

## Contents

<b>1. Housing benefits subsidy claim .....</b>	<b>1</b>
<b>2. 2016-17 certification fees .....</b>	<b>2</b>
<b>3. Looking forward .....</b>	<b>3</b>

# 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£ 26,940,110
Amended/Not amended	Amended – subsidy increased by £135,624
Qualification letter	Yes
Fee – 2016-17	£13,793
Fee – 2015-16	£9,190

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years' claims. We found errors and carried out extended testing in several areas similar to prior years.

Our extended and other testing identified errors which the Council amended. They had an impact on the claim increasing subsidy by £135,624. The majority of this impact was due to a typographic error made by the Council in one cell which had not been picked up on review.

We reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP will decide whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

**HRA Rent Rebates: expenditure misclassified** - Testing of the initial sample identified two cases where expenditure had been identified as an overpayment due to LA error but classified in the claim as ordinary entitlement. Testing of an additional 40 cases did not identify any further errors. We reported an extrapolated overpayment of £21,296.

**HRA Rent Rebates: overpayment misclassified** - Testing of the initial sample identified one case where overpayment due to claimant error had been incorrectly classified as LA error. Testing of an additional 40 cases identified two further errors. We reported an extrapolated overpayment of £4,026.

**HRA Rent Rebates: eligible rent** - Testing of the initial sample identified one cases where benefit was overpaid due to incorrect eligible rent being used in the benefit calculation. Testing of an additional 40 cases did not identify any further errors. We reported an extrapolated overpayment of £51.

## 2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
<b>Certification Fees</b>			
Housing benefits subsidy claim	13,793	13,793	9,190
<b>Other Assurance Work</b>			
Pooling of Housing Capital Receipts Return	tbc	3,500	3,300

The indicative certification fee for 2016/17 is based on the actual fee for 2014/15 with a 25% reduction in scale fee. Whilst the Council undertook all the initial testing the level of error identified in 2016/17 was higher than that identified in 2014/15. We do not therefore propose to submit a scale fee variation to PSAA for the 2016/17 certification work.

Our fee in respect of pooling of housing capital receipts return is only indicative at this stage as the work is yet to commence.

### 3. Looking forward

#### 2017/18

The Council's indicative certification fee for 2017/18 is £24,043. This was set by PSAA and is based on final 2015/16 certification fees. Details of individual indicative fees are available at the following web address: <https://www.psa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

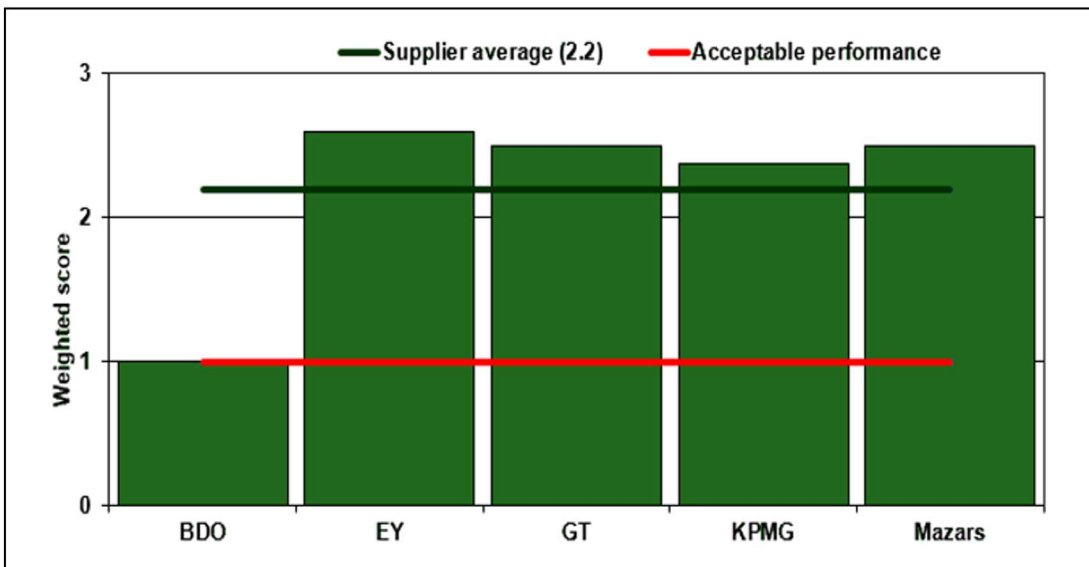
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Finance Director before seeking any such variation.

#### 2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we have now been formally appointed by PSAA as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

Looking forward

## Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](http://ey.com)



# Agenda Item 5



South  
Cambridgeshire  
District Council

**Report To:** Audit and Corporate Governance  
Committee

26 January 2018

**Lead Officer:** Executive Director (Corporate Services)

---

## Audit and Corporate Governance Committee Achievement of Statutory Accounts Deadlines 2017-18

### Purpose

1. To inform the Committee of the plans to achieve the statutory accounts deadlines in 2017-18 and the proposed dates for accounts approval.
2. This is not a key decision because this report is informing the Committee of the statutory accounts deadlines in 2017-18.

### Background

3. The audit of the 2016-17 accounts did not meet the statutory deadline. Going forward, in order to meet the new deadlines set out below, the Finance Department have formulated new planning and working arrangements in conjunction with our external auditors, Ernst and Young, to ensure that this is not repeated in 2017-18 and that the new more challenging timetable can be met.

### Considerations

4. The key milestones for the 2017-18 accounts are as follows :

Key Milestone	Date
Submission of draft accounts and Annual Governance Statement (AGS) to External Auditors	31 <sup>st</sup> May
Audit and Corporate Governance Committee – workshop to review draft accounts and AGS	8th June
Meeting of Audit and Corporate Governance Committee to approve the accounts	27 <sup>th</sup> July

5. The accounts do not require committee approval at the draft stage. In the past they have been submitted in draft prior to the audit so that members had a chance to review and comment before the accounts are finalised for approval. We are now proposing to hold a workshop session on 8<sup>th</sup> June , following the deadline for submission to audit so that members can be taken through the accounts in a more informal and interactive way. Please note that the milestone for submitting the accounts to the External Auditors stipulated by the DCLG is much tighter than in previous years.
6. The Finance Department has devised a revised accounts delivery timetable with key milestones which will ensure that all staff know which tasks they need to complete by when in order to ensure that the accounts are delivered

on time. The Chief Accountant will also ensure that all staff know when they need to start work on each task. Regular weekly accounts closedown meetings will be held in order to ensure that all team members can report on progress, enabling action to be taken to avert delivery blockages. A summary of the draft year end and accounts preparation timetable is provided in Appendix 1.

7. The accounts delivery timetable is clear on the risks of each deliverable and management will focus attention on the key risk areas (for example, the asset register) as the accounts process moves forward. The views of external audit will be sought on key risk areas in conjunction with a review of the 2016-17 accounts to ensure risk areas are identified and managed.
8. The key risks to the delivery of the audit timetable are set out in the table below together with details on how we will mitigate those risks. This takes into account the lessons learned from the 2016-17 accounts process.

<b>Key Accounts delivery risks 2017-18 taking account of issues from last year's accounts process</b>	<b>Mitigation Actions Taken/to be taken</b>
Loss of key accounts staff in the middle of accounts preparation. This happened last year. Were it to happen again, it would threaten the timetable delivery.	Recruitment of two experienced temporary staff members to ensure the accounts are delivered on time. Whilst one can never guard fully against staff illness or departures, the arrangements put in place this year are much more robust
Too much responsibility for completion of the accounts devolved on one individual. If this risk is not tackled, the Council will be vulnerable if too much knowledge is kept within one individual.	We will ensure that responsibility for delivery of accounts is assigned to several staff members with appropriate supervision. This will have short-term benefits in ensuring we are not over dependent on one staff for delivery and long-term benefits in that the accounts staff will gain more confidence and skill in delivering the final accounts
Staff Uncertain as to their accounts area responsibilities. If staff are unclear as to why they are doing things, poor work can result. They need to know how their work fits into the financial statements and notes.	The revised timetable will make clear who is required to deliver particular outputs and the deadlines for delivery. It will also show who is required to deliver the individual financial statements and each note to the accounts
Staff uncertain regarding the timetable. There is a risk that although staff know the deadlines, that they may not realise the time the work will take or the dependencies between accounts completion tasks.	Although there was a timetable last year, it did not specify when tasks had to be completed or the linkages between the delivery of the outturn reports at year end and the financial statements. This will be made clear in the revised timetable
Minimal arrangements for communication between accounts staff meaning progress is	The revised timetable includes regular weekly accounts closedown

difficult to monitor or delays difficult to avoid	meetings will be held in order to ensure that all team members can report on progress, enabling action to be taken to avert delivery blockages
---	--

9. The Finance Department will engage with the External Auditors to ensure that both parties are both fully aware of the timetable. We will ensure that all audit queries are communicated to and through a single point of contact at the Council (the Chief Accountant) and that a single audit queries spreadsheet is maintained to ensure that both parties are aware of progress during the course of the audit. The table below sets out the key risks to the timely completion of this year's audit and what we will do to make sure that they are managed.

<b>Key audit risks 2017-18 taking account of issues from last year's audit process</b>	<b>Mitigation Actions Taken/to be taken</b>
Poor continuity of audit personnel leading to time wasted because new audit staff having to learn requirements and not always aware of their colleagues' requests or work.	External Auditors to communicate names and qualifications of audit staff to be used on the audit and to provide reasons to South Cambridgeshire District Council if these staff need to be replaced during the audit. Any replacements should be like to like with similar qualifications and experience and wholesale changes of personnel should be avoided.
Audit queries being delivered orally or in a haphazard fashion. This leads to confusion and it is difficult to understand how the audit is progressing.	A single audit queries spreadsheet will be maintained to ensure that both parties are aware of progress during the course of the audit. No audit queries should be raised without it featuring on this document.
Audit queries being delivered to a number of accounts staff rather than through a single point of contact. This leads to an inefficient audit as audit queries may not being end up in the most efficient way. Management of the process becomes difficult and accounts staff may be faced with answering audit queries when they should be working on the accounts	We will ensure that all audit queries are communicated to and through a single point of contact at the Council (the Chief Accountant)
Poor or suboptimal working relations between the auditors and the Council. If this risk materialises, it can lead to a stand off in which the accounts timetable is inevitably delayed. Examples of poor working relations may involve each not being aware of what the other is doing	We will ensure we engage with the 2017/18 audit team at EY from an early stage and establish working relationships and protocols. In particular we will ensure that our key

rather than any ill-feeling.	milestones in our accounts delivery timetable and the milestones in their audit plan are compatible.
------------------------------	--

### **Implications**

10. There are no significant implications.

### **Effect on Strategic Aims**

#### **Aim 1 – An Innovative and Dynamic Organisation**

The improvements outlined in this report will ensure that the accounts and audit are delivered to the statutory timescale in 2017-18. This will demonstrate that we can improve performance year on year whilst maintaining the required accounting and working standards.

### **Background Papers**

None

**Report Author:** Alex Colyer – Executive Director, Corporate Services  
Telephone: (01954) 713023

## Appendix 1

### Summary of the Draft Year End Accounts Preparation Timetable

<b>Task</b>	<b>Deadline</b>
Download of Month 9 Financial Data to Ernst and Young Portal for Interim Audit	22 <sup>nd</sup> January
Issue of Accounts Timetable to Ernst and Young and to accounts staff	2 <sup>nd</sup> February
Interim Audit completed by Ernst and Young	TBA – provisionally end of February
Last creditors and cheque runs and other 2017-18 in year transactions to be completed	29 <sup>th</sup> March
Completion of Outturn Reports	13 <sup>th</sup> April
1 <sup>st</sup> Draft Statement of Accounts	14 <sup>th</sup> May
Submission of final draft statement of accounts including Annual Governance Statement (AGS) to External Auditors	31 <sup>st</sup> May
Audit and Corporate Governance Committee – workshop to review draft accounts and AGS	8 <sup>th</sup> June
Meeting of Audit and Corporate Governance Committee to approve the accounts	27 <sup>th</sup> July

This page is left blank intentionally.

# Agenda Item 7



South  
Cambridgeshire  
District Council

**Report To:** Audit and Corporate Governance  
Committee  
**Lead Officer:** Executive Director (Corporate Services)

26 January 2018

---

## Treasury Management Annual Report

### Purpose

1. To report on the performance of the treasury management function for the period 1 April 2016 to 31 March 2017.
2. This is not a key decision but reporting to the Corporate Governance Committee is a requirement of the Council's Investment and Borrowing Strategy.

### Recommendations

3. It is recommended that Audit and Corporate Governance Committee note the creditable performance of the treasury management function.

### Reasons for Recommendations

4. The performance of the treasury management function should be reviewed to ensure reasonable returns are achieved commensurate with risk.

### Background

5. The Borrowing and Investment Strategy approved by Council on 23 February 2017 requires an annual report to be presented to Corporate Governance Committee after the end of the financial year.

### Considerations

6. Investments of £75.53m were held by the Council at 31 March 2017, and included £70.89m in fixed rate investments. Investments included £24.661m to South Cambs Limited with a range of maturities up to 2021. A Public Loans Works Board (PWLB) loan to support lending to the Company had previously been proposed for October 2016 but sufficient cash flow balances and an increase in the approved counterparty investment limits enabled the Council to continue with investments. Current forecasts indicate the Council will need to begin obtaining loans from PWLB (as agreed by Council 28 November 2013) in December 2018 for onward lending to the Company, up to a maximum of £45m in accordance with the approved investment strategy.
7. The original estimate of interest forecast for the year 2016-17 of £511,400 was based on the expectation that the Council would borrow to on-lend to the company however, cash flow balances have enabled the Council to continue with investments without a

need to borrow thereby increasing interest receipts without increasing debt interest payments.

	31 March 2017 £k	31 March 2016 £k
Local authorities	3,000	0
South Cambs Ltd	24,661	11,257
Clearing banks	24,725	20,500
Other banks	3,000	2,500
Money Market Funds	4,640	2,650
Building Societies with assets:		
- Greater than £10bn	15,500	16,000
- Between £5bn and £10bn	0	0
- Between £1.5bn and £5bn	0	0
Shares	50	50
<b>Total</b>	<b>75,576</b>	<b>52,957</b>

8. Investments achieved an in-year return of £1,128k, £616k more than estimated due in part to the higher rate of interest charged on investments with South Cambs Limited. Interest of £680k was received from South Cambs Limited and £448k from other fixed term deposit and money market funds.
9. The results for 2016-17 show that South Cambridgeshire achieved a return of 2.16% on combined investments compared to 2.18% in 2015-16.
10. Money market funds achieved an average return during the year of 0.35%, a decline on the previous year. Sums held in money market funds are essentially overnight deposits to facilitate short term cash flow requirements.
11. During 2016-17 the Bank of England base rate started the year at 0.5%. In August 2016 the rate was cut to 0.25%, the first rate cut since March 2009. This has been reflected in market interest and money market rates, the yield curve seeing levels fall during 2016-17 with rates as low as 0.20% for 1 month to 1.15% for 5 years. The cut was reversed in November 2017, with the Bank of England base rate returning to 0.5% at that point. Rates have edged up to 0.32% for 1 month to 1.6% for 5 years.
12. The performance target is a greater return than average over a five-year rolling period. Over the five-year period the target has been met.
13. In March 2012, following the introduction of the Housing Revenue Account Self Financing regime, the Council acquired debt of £205 million. The full sum was borrowed from the Public Works Loans Board at an average fixed rate of 3.5% as 41 individual loans with maturity dates between 2037 and 2057.
14. The Council's Borrowing and Investment Strategy states that the effective management and control of risk are the prime objectives of its' treasury management activities. The specific risks in treasury management are:

(a) **credit and counterparty risk**



The risk of failure by a counterparty to meet its contractual obligations to pay interest and repay principal: the Council's range of counterparties is restricted to UK banks, financial institutions approved by the Council and large building societies (all of which must have a satisfactory credit rating) and to public sector bodies.

(b) **liquidity risk**

The risk that cash will not be available when it is needed: the Council has cash flow forecasts which are updated weekly, an overdraft facility with its bank and, as a last resort, can borrow on the open market or from the PWLB.

(c) **interest rate risk**

The risk of loss through adverse movements in interest rates: the Council mainly invests in fixed interest rate deposits so it accepts the risk of an opportunity cost that money is invested at fixed rates and market rates subsequently rise.

(d) **exchange rate risk**

The risk of loss through adverse movements in exchange rates: the Council's Investment strategy restricts all treasury management transactions to pounds sterling.

(e) **refinancing risk**

The risk that maturing investments cannot be reinvested at favourable rates: the Council's investments for less than a year are made to match liabilities and for more than one year have a spread of maturity dates.

(f) **legal and regulatory risk**

The risk of loss due to the Council or its counterparties failing to act in accordance with their legal powers and regulatory requirements: the Council only deals in simple investments and only deals with well recognised and perceived to be reliable counterparties.

(g) **fraud, error and corruption**

The risk of loss through fraud, error and corruption; the Council has internal controls including segregation of duties, an internal audit function to evaluate those internal controls and fidelity guarantee insurance.

(h) **market risk**

The risk of adverse fluctuations in the value of investments: the Council only invests in non-negotiable investments which are held to maturity and realised at face value.

**Prudential Indicators**

15. The Prudential Code for Capital Finance in Local Authorities came into effect on 1 April 2004, the objective being to provide a framework for capital programmes to ensure that:

- Capital expenditure plans are affordable;
- All external borrowing and other long term liabilities are within prudent and sustainable levels; and
- Treasury management decisions are taken in accordance with professional good practice.

The indicators are primarily to show whether a local authority is entering into a long term commitment which it may not be able to afford in the future. The Council's main long term commitment is the £205 million debt resulting from the Government's Housing Revenue Account Self Financing Reforms and the affordability and sustainability of this debt are addressed in the Housing Revenue Account business plan.

16. A key prudential indicator is the capital financing requirement, which is capital expenditure which has not been fully financed from a local authority's own resources in the year but has been covered by raising external or internal debt, the position at 31 March 2017 is shown below:

	<b>31/03/2017 Estimate £m</b>	<b>31/03/2017 Actual £m</b>	<b>31/03/2018 Estimate £m</b>
General Fund	35.578	20.938	41.560
Housing Revenue Account	204.429	204.429	204.429
<b>Total</b>	<b>240.007</b>	<b>225.367</b>	<b>245.989</b>

The General Fund capital financing requirement fluctuates due to financing internally refuse and street cleaning vehicles, part of the purchase of wheeled bins and cash overdrown on equity share repurchases, but this financing is then partly repaid over a period.

17. The actual financing of General Fund expenditure in 2016-17 is lower than the estimate due to external borrowing for on-lend to South Cambs Limited being deferred to 2017-18, funding requirements for the company in 2016-17 being covered from available Council cash balances.
18. One of the indicators of prudence is that net debt is not in excess of the capital financing requirement; this position is confirmed in the table below. External debt relates to the Housing Revenue Account Self Financing debt of £205 million, the Council set an external debt authorised limit for 2016-17 of £240.0 million.

	<b>2016-17 Estimate £m</b>	<b>2016-17 Actual £m</b>	<b>2017-18 Estimate £m</b>
Borrowing	240.0	205.1	249.1
Investments	-53.0	-75.5	-31.0
Net debt	187.0	129.6	218.1

### Options

19. Options for the investment of surplus funds will be limited in the future as it may be more beneficial to use such funds to reduce marginally and temporarily the £205 million debt arising from Housing Revenue Account Reform. Other options for any surplus funds include:

- (a) Out-sourcing; however, external managers usually require a minimum of £10 million for a period of at least three years and, with the reduction in capital receipts and other reserves, these requirements cannot be met;
- (b) The Investment Strategy restricts the range of counterparties and weekly monitoring of credit ratings and bank financial strength ratings restricts this range even further. The range of counterparties could be extended but any additions would need to be subject to an assessment of risk as the successful identification, monitoring and control of risk is the Council's prime criteria for measuring the effectiveness of treasury management.

### **Implications**

20. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

#### ***Financial***

21. The in-house treasury management function achieved an average rate of 2.16% on combined investments. The average investment rate with South Cambs Limited was 3.68%.

#### ***Risk Management***

22. As noted in this report.

### **Consultation responses (including from the Youth Council)**

23. No consultation considered necessary.

### **Effect on Strategic Aims**

24. This report has no direct implications for any of the Strategic Aims but any increase in interest received (commensurate with risk) may reduce the need for cuts in individual services and assist in the achievement of actions to support those aims.

### **Conclusion**

25. The in-house treasury management has achieved a good performance in 2016/17 at a minimal cost.

### **Background Papers**

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

**Report Author:** Dan Hasler – Accountancy Assistant  
Telephone: (01954) 713394

This page is left blank intentionally.