Regulatory and Audit Committee
19 November 2013

Documents to follow

Buckinghamshire County Council
Visit **www.buckscc.gov.uk/democracy** for councillor information and email alerts for local meetings

Regulatory & Audit Committee

Title:	**Treasury Management Mid-year Report 2013/14**
Date:	19 November 2013
Author:	Pensions & Investments Manager
Contact officer:	Julie Edwards 01296 383910
Electoral divisions affected:	n/a

Summary

1 The Council is required to report to members on the current year's treasury management. It was agreed that a mid year report on treasury management would be reported to Regulatory and Audit Committee prior to reporting to County Council as required by the CIPFA Code of Practice on treasury management in the public sector.

Recommendation

The Committee is asked to NOTE the treasury and investment borrowing performance and the monitoring against the Prudential Indicators.
The Committee is asked to RECOMMEND to County Council an amended Investment Strategy for the remainder of 2013/14 in respect of collective investment schemes and pooled funds and that the table overleaf is added to the list of non-specified investments, the changes are highlighted in grey:

INVESTOR IN PEOPLE

Investment	Why use it? Associated risks?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Maximum value	Maximum period
Organisations and pooled funds which do not meet the above criteria, subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser	These may include long-term investments with registered providers of social housing or corporate bond funds or collective investment schemes (pooled funds) including property funds where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed.	5 years for an investment with a registered social housing provider. The pooled funds do not have a defined maturity date.	Subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser.	£5m per individual counterparty such as a registered provider of social housing £25m per pooled fund.	5 years There is no maximum period, but it is envisaged that funds would be placed for an expected long duration, for example 3 years minimum.
Collective investment schemes (pooled funds) which do not meet the definition of collective investment schemes in Statutory Instrument (SI) 2004 No 534 or SI 2007 No 573 and subsequent amendments	These may include long-term investments with registered providers of social housing or corporate bond funds or collective investment schemes (pooled funds), where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed.	These funds do not have a defined maturity date.	Subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser.	£25m	

Supporting information

2 In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management revised 2011 and the Council's Financial Regulations (A3.2), this Council is required to provide Regulatory and Audit Committee with a mid year report on the treasury management activity for the first six months of the financial year.

3 The Code of Practice defines Treasury Management as:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Treasury Management Strategy

4 The Council approved the 2013/14 treasury management strategy at its meeting on 14 February 2013. The general policy objective for this Council is the prudent investment

of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The effective management and control of risk are prime objectives of the Council's treasury management activities.

5 All treasury management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions.

Debt Management Strategy

6 The Council's borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio.
- To manage the Council's debt maturity profile, leaving no one future year with a disproportionate level of repayments.
- To maintain a view on current and possible future interest rate movements and borrow accordingly.
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and the Prudential Indicators.

Economic Review

7 Whilst the outlook for the global economy appeared to have improved over the first half of calendar 2013/14, significant economic risks remain, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth, and, despite the time gained by the ECB to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away. The region appears to be dragging itself out of recession and September's German general election passed with little incident but political uncertainties, particularly in Italy, could derail any progress towards a more balanced and stable regional economy. The US recovery appeared to be on track, but a lack of agreement on the federal budget by the end of September caused a partial government shutdown at the start of October, which could have an effect on GDP growth. Political risks also remain regarding the debt ceiling.

Outlook for Interest Rates

8 There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. The main development for UK monetary policy was the start of Mark Carney's tenure as Governor and the implementation of forward guidance. Within the August Inflation Report, the Bank stated its forward guidance, the main element of which is to defer monetary tightening at least until the ILO Unemployment Rate falls to a threshold of 7% (among a raft of caveats). The Bank projected that the probability of this happening would remain below 50% until 2016. The Governor has had to defend the Bank's guidance in the face of rising financial market expectations of an earlier rate rise on the back of the encouraging economic data.

Interim Performance Report

9 During the first six months of 2013/14 Buckinghamshire County Council invested cash balances not required on a day to day basis for periods of up to 1 year. These investments were invested at interest rates between 0.25% and 3.25%. The average rate of return to date is 0.61% which exceeds the weighted average LIBID benchmark rate of 0.49% by 0.12%, this is projected to increase to an average of 0.62% by the end of year. The projected revenue of £1.75m for investment income is expected to exceed

the budget of £1.70m by £50,000. This is due to investments placed earning average interest of 0.62% compared to the budgeted interest earned of 0.60% and cash balances being higher due to receipt of grant income at the beginning of the financial year.

10 Loans outstanding totalled £186.8m at 30 September 2013; £104.8m was from the Public Works Loan Board (PWLB) and £82m from the money markets. The forecast outturn for interest payments on external debt is on target compared to the budget of £11.6m. During the six months to 30 September £866,000 was repaid to the PWLB, there has been no new long term borrowing during the period, the Council continues to actively monitor debt restructuring options. A further debt principal repayment of £866,000 was made on 1 October 2013 reducing the total outstanding loans to £185.9m.

11 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The Indicators 2013/14 to 2016/17 agreed by County Council at its meeting on 14 February 2013 are shown in Appendix 1 along with the Prudential Indicator forecast for 2013/14.

12 The Icelandic Supreme Court found in favour of UK local authorities and other UK wholesale depositors, this means that UK local authorities' claims have been recognised as deposits with priority status over other creditors' claims. We are being paid first when it comes to getting our money back; to date we have received £2.7m and will recover most of the £5 million we had on deposit with Landsbanki.

Amendment to Investment Strategy

13 Due to the ongoing risks in the banking system and the low interest rates due to the low base rate and the impact of the Funding for Lending Scheme it is recommended that the Council looks for diversification opportunities.

14 Specified investments offer relatively high security and high liquidity. These investments can be used with minimal procedural formalities. The DCLG Guidance defines specified investments as those denominated in sterling, with a maturity of no more than a year and invested with one of the UK Government, a UK local authority, parish council or community council or a body or investment scheme of "high credit quality." Any investment not meeting the definition of a specified investment is classed as non-specified. For non-specified investments proper procedures must be in place for undertaking risk assessments prior to investments being placed.

15 The Committee is asked to recommend to County Council that the table overleaf is added to the list of non-specified investments, the changes are highlighted in grey:

Investment	Why use it? Associated risks?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating	Maximum value	Maximum period
Organisations and pooled funds which do not meet the above criteria, subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser	These may include long-term investments with registered providers of social housing or corporate bond funds or collective investment schemes (pooled funds) including property funds where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed.	5 years for an investment with a registered social housing provider. The pooled funds do not have a defined maturity date.	Subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser.	£5m per individual counterparty such as a registered provider of social housing £25m per pooled fund.	5 years There is no maximum period, but it is envisaged that funds would be placed for an expected long duration, for example 3 years minimum.
Collective investment schemes (pooled funds) which do not meet the definition of collective investment schemes in statutory instrument 2004 No 534 or SI 2007 No 573 and subsequent amendments	These may include long-term investments with registered providers of social housing or corporate bond funds or collective investment schemes (pooled funds), where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed.	These funds do not have a defined maturity date.	Subject to an external credit assessment and a specific recommendation from the Council's treasury management adviser.	£25m	

16 The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled Funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Investments in Pooled Funds will be undertaken with advice from Arlingclose Ltd. The performance and continued suitability in meeting the Authority's investment objectives will be regularly monitored. For example, Arlingclose Ltd have recommended that the Council invests £5m in the CCLA Local Authorities Property Fund a high quality, diversified property fund managed exclusively for local authority investors which will generate rental income yield. Due to the costs associated with entering and exiting this asset class it is anticipated that the initial investment will be for a minimum of 5 years.

Resource implications

There are no additional costs associated with the recommendation.

Legal implications

The publication of a mid year treasury report conforms to best practice as required by the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice.

Other implications/issues

Not applicable.

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

Not applicable

Background Papers

Treasury Management Strategy Report to Regulatory & Audit Committee 30 January 2013
http://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=148&MId=5370&Ver=4

Treasury Management Strategy Report to County Council 14 February 2013
http://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=107&MId=5449&Ver=4

Treasury Management Activity 2012/13 Report to Regulatory & Audit Committee 27 June 2013
http://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=148&MId=5375&Ver=4

Treasury Management Activity 2011/12 Report to County Council 18 July 2013
http://democracy.buckscc.gov.uk/ieListDocuments.aspx?CId=107&MId=5452&Ver=4

Appendix 1

PRUDENTIAL INDICATORS ESTIMATES 2013/14 to 2016/17

1. BACKGROUND

1.1. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

1.2. Local Authorities are required to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. To demonstrate compliance the Code sets prudential indicators designed to support and record local decision making.

1.3. The purpose of this report is to provide an update on the indicators approved by Council earlier this year, and to estimate the position for the period 2013/14 to 2016/17. The report describes the purpose of each of the indicators and the values and parameters for Buckinghamshire County Council. Monitoring of the Prudential Indicators takes place throughout the year, a mid-year and annual report are reported to Regulatory & Audit Committee and Council.

2. CAPITAL EXPENDITURE INDICATORS

2.1. CAPITAL EXPENDITURE

This indicator is required to inform the Council of capital spending plans for the next four years. It is the duty of a local authority to determine and keep under review the amount that it can afford to allocate to capital expenditure.

The estimates of gross capital expenditure to be incurred for the current and future years is summarised below:

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Estimates of capital expenditure	£000	**115,739**	112,268	56,131	44,774	217,399

The 2013/14 estimates reflect the reported slippage against the revised budget of around £14m based on forecasts to the end of September 2013. This relates primarily to delays in the availability of Education & Skills spend information. As a result around £25m of expenditure (£11.5m net of related slipped funding) has been requested to be re-profiled into future years.

The estimate of capital expenditure for 2013/14 to 2016/17 do not reflect any proposed changes as part of the 2014/15 to 2017/18 MTP.

In 2013/14 and 2014/15 the programme includes a time-limited boost to the funding available by use of part of the Council Tax Freeze Grant. This has permitted continuation of work to improve the condition of the Highways network. In addition it includes the building of two new Academies and the University Technical College which are substantially grant funded. It is therefore anticipated that there will be no impact on the Council's capital financing or borrowing requirement during the period 2013/14 to 2015/16.

In 2016/17 the programme includes an allowance for the Energy from Waste plant, which will be supported in part through prudential borrowing.

2.2. CAPITAL FINANCING REQUIREMENT

The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes. This is essentially the Council's outstanding debt, necessary to finance the Council's capital expenditure. The actual debt is dependent on the type and maturity of the borrowing undertaken as well as seeking the optimal cashflow situation (see 5.3). Estimates of the end of year Capital Financing Requirement for the Council for the current and future years, net of repayments are:

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Estimates of capital financing requirement (CFR)	£000	211,743	211,743	203,660	195,887	318,414

Authorities can finance schemes in a variety of ways these include;

- The application of useable capital receipts
- A direct charge to revenue
- Application of a capital grant
- Contributions received from another party
- Borrowing

It is only the latter method that increases the Capital Financing Requirement (CFR) of the Council. No new borrowing is planned this year or the next two years. The profile above therefore reflects a steady decrease in the outstanding debt as annual repayments are made. In 2016/17 the CFR estimates includes an allowance for prudential borrowing of £130m that may be required to be undertaken as part of the Energy for Waste (EfW) Project.

3. AFFORDABILITY INDICATORS

3.1. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

Purpose of the Indicator

This indicator measures the proportion of the revenue budget that is being allocated to finance capital expenditure. For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers.

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Estimates of ratio of financing costs to net revenue stream	%	6.2%	6.3%	6.3%	6.2%	5.9%

3.2. ESTIMATES OF INCREMENTAL IMPACT OF NEW CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX

This is a key affordability indicator that demonstrates the incremental effect of planned capital expenditure and hence any increased or decreased borrowing, on Council Tax.

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Estimates of the incremental impact of capital investment decisions on Council Tax	£ per Band D Equivalent	-£9.00	-£9.00	-£6.58	-£2.34	-£13.84
	%	-0.83%	-0.83%	-0.60%	-0.21%	-1.23%

The delivery of a number of projects within the capital programme including the replacement of Street Lamps with more efficient equipment, introduction of a bio-waste treatment facility and rationalisation of premises will result in revenue savings.

4. FINANCIAL PRUDENCE INDICATOR

4.1. NET DEBT AND THE CAPITAL FINANCING REQUIREMENT

This indicator records the extent that gross external borrowing is less than the capital financing requirement (2.2 above).

This is a key indicator of the Council's prudence in managing its capital expenditure and is designed to ensure that, over the medium term, external borrowing is only for capital purposes. The Council should ensure that gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. The values are measured at the end of the financial year.

Where gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

The figures for 2013/14 onwards are based on estimates:

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Gross Borrowing	£000	188,600	195,000	205,000	215,000	205,000
Capital Financing Requirement	£000	211,743	211,743	203,660	195,887	318,414

The above figures show that during this and the next 3 years gross external borrowing in Buckinghamshire may temporarily exceed the capital financing requirement.

The Council is committed to building an EfW plant. This may require additional borrowing during 2016/17, although in practice much of this may be financed through a combination of earmarked reserves and current cash investments. The gross borrowing indicator assumes borrowing £10m, £20m and £20m in advance of need during 2013/14, 2014/15 and 2015/16 respectively, due to this borrowing, gross debt exceeds the capital financing requirement in 2014/15 and 2015/16. No additional debt had been raised as at 30 September 2013.

5. TREASURY AND EXTERNAL DEBT INDICATORS

5.1. AUTHORISED LIMIT FOR EXTERNAL DEBT

The authorised limit for external debt is required to separately identify external borrowing (gross of investments) and other long term liabilities such as covenant repayments and finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year.

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Authorised limit (for borrowing) *	£000	250,000	250,000	250,000	250,000	300,000
Authorised limit (for other long term liabilities) *	£000	10,000	10,000	10,000	10,000	10,000
Authorised limit (for total external debt) *	£000	260,000	260,000	260,000	260,000	310,000

* These limits can only be breached with the approval of the full Council

The authorised limits are consistent with approved capital investment plans and the Council's Treasury Management Policy and Practice documents, but allow sufficient headroom for unanticipated cash movements.

The limit will be reviewed on an on-going basis during the year. If the authorised limit is liable to be breached at any time, the Service Director (Finance & Commercial Services) will either take measures to ensure the limit is not breached, or seek approval from the Council to raise the authorised limit.

5.2. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

This is a key management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point in the year. In comparison, the authorised limit is the maximum allowable level of borrowing.

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Operational boundary (for borrowing)	£000	200,000	200,000	210,000	220,000	220,000
Operational boundary (for other long term liabilities)	£000	5,500	5,500	5,500	5,500	5,500
Operational boundary (for total external debt)	£000	205,500	205,500	215,500	225,500	225,500

This indicator is consistent with the Council's plans for capital expenditure and financing and with its Treasury Management Policy and Practice document. It will be reviewed on an on-going basis.

5.3. ACTUAL EXTERNAL DEBT

This is a factual indicator showing actual external debt for the previous financial year.

The actual external borrowing as at 31 March 2013 was £193.9m which includes £2.3m accrued interest. During the current financial year £5.7m of debt will be repaid relating to 'Equal Instalment of Principal' loans. The forecast external borrowing as at 31 March 2014 is £188.2m.

6. TREASURY MANAGEMENT INDICATORS

The prudential code links with the CIPFA Code of Practice for Treasury Management in the Public Services.

The Treasury Management indicator consists of five elements that are intended to demonstrate good professional practice is being followed with regard to Treasury Management. The proposed values and parameters provide sufficient flexibility in undertaking operational Treasury Management.

6.1 Security Average Credit Rating

The Council is asked to adopt a voluntary measure of its exposure to credit risk by monitoring the weighted average rating of its investment portfolio.

Security Average Credit Rating	Actual / Target
Portfolio Average Credit Rating	AA- / A+ or above

For the purpose of this indicator local authorities, which are unrated are assumed to hold an AAA rating.

6.2 Has the Council adopted the CIPFA Treasury Management Code?

The Council has adopted the Code. In line with the Code the Treasury Strategy, the mid year review and the annual review are reported to Cabinet and Council.

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes	Yes	Yes	Yes

6.3 Upper limit of fixed rate borrowing for the 4 years to 2016/17.

This indicator is set to control the Council's exposure to interest rate risk and the rate is set for the whole financial year. The upper limits on fixed interest rate exposures expressed as an amount will be:

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Fixed interest rate exposure - upper limit *	£000	200,000	200,000	215,000	225,000	220,000

* Any breach of these limits will be reported to the full Council

6.4 Upper limit of variable rate borrowing for the 4 years to 2016/17.

This indicator is set to control the Council's exposure to interest rate risk. Here instruments that mature during the year are classed as variable, this includes the Council's Lender Option Borrower Option (LOBO) loans. For LOBO loans, on specified call dates, the lender has the option to increase the interest rate paid on the loan. If the lender exercises this option, then the borrower can agree to pay the revised interest rate or repay the loan immediately. The upper limits on variable interest rate exposures expressed as an amount of the net principal will be:

Indicator	Unit	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Variable interest rate exposure - upper limit *	£000	75,000	75,000	110,000	80,000	80,000

* Any breach of these limits will be reported to the full Council

6.5 Maturity structure of fixed rate borrowing for 2013/14 – 2016/17

This Indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of the fixed borrowing will be:

Maturity Structure of Fixed Rate Borrowing	Revised Estimate as at 30 Sept 2013		2013/14		2014/15		2015/16		2016/17	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	40%	0%	40%	0%	50%	0%	45%	0%	55%	0%
12 months and within 24 months	40%	0%	40%	0%	35%	0%	45%	0%	40%	0%
24 months and within 5 years	55%	0%	55%	0%	55%	0%	55%	0%	55%	0%
5 years and within 10 years	60%	0%	60%	0%	55%	0%	55%	0%	60%	0%
10 years and above	100%	20%	100%	20%	100%	20%	100%	20%	100%	20%

These parameters control the extent to which the Council will have large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.6 Total principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments.

Indicator	Revised Estimate as at 30 Sept 2013	Approved Estimate 2013/14	2014/15	2015/16	2016/17
Total principal sums invested for periods longer than 364 days	£5M	£75M	£75M	£75M	£75M

With regard to longer term investments the recommendation is to limit sums for periods longer than 364 days to no more than £75m.

7 CONCLUSION

In approving, and subsequently monitoring, the above prudential indicators the Council is fulfilling its duty to ensure that spending plans are affordable, prudent and sustainable.

Grant Thornton

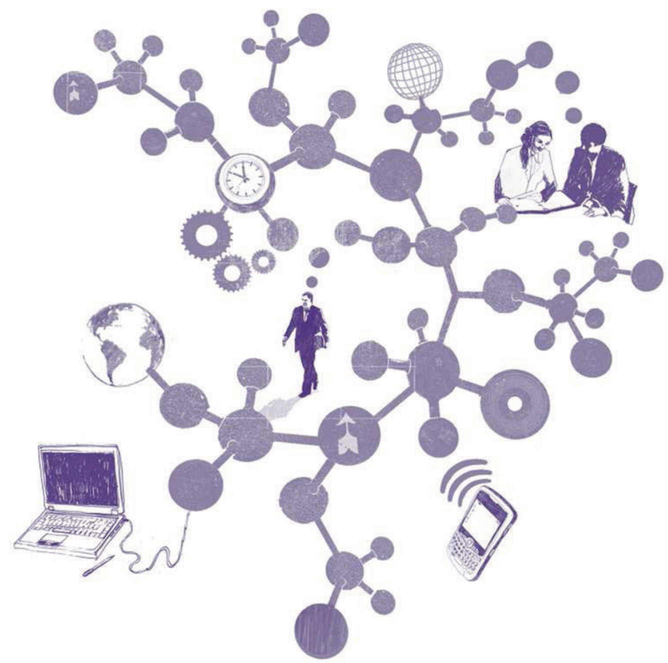
The Annual Audit Letter for Buckinghamshire County Council

Year ended 31 March 2013

October 2013

Paul Grady
Director
T 020 7728 2681
E paul.d.grady@uk.gt.com

Iain Murray
Senior Manager
T 020 7728 3328
E iain.g.murray@uk.gt.com



Contents

Section 1: Executive summary

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Buckinghamshire County Council for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing your arrangements for securing economy, efficiency and effectiveness in your use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to you and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 24 September 2013 and in a final version shared with you on 27 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

You are responsible for preparing and publishing your accounts, accompanied by an Annual Governance Statement. You are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 16 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion that your accounts give a true and fair view of your financial position as at 31 March 2013 and your income and expenditure for the year
- an unqualified conclusion in respect of your arrangements for securing economy, efficiency and effectiveness in your use of resources
- an unqualified opinion on your Whole of Government Accounts submission

There is one grant claim which we are required to certify. This work is still in progress although we have already identified some required amendments to the claim. The detailed findings of our certification work will be reported in our Grant Certification report upon completion of our work.

Key areas for Council attention

We summarise here the key messages arising from our audit for you to consider as well as highlighting key issues facing you in the future:

- your finance team produced a high quality set of financial statements and supporting working papers.
- we identified no material errors and only one error was not amended in the financial statements. Whilst this error had a significant impact on the income and expenditure reported in the financial statements it had no impact on your reported financial position.
- we had to carry out additional testing in respect of other revenues following the identification of errors in our initial testing. We also encountered some delays in the audit process this year due to difficulties experienced in interrogating the financial ledgers and obtaining evidence to support some figures in the financial statements.
- you remain in a strong financial position, with a high level of general fund reserves and earmarked reserves.
- we reviewed the reasonableness of the decision to enter into the Energy from Waste contract and identified no areas of significant concern. The risks associated with the contract letting stage of the scheme were well articulated and you have put in place appropriate mechanisms to manage or mitigate risks.
- 2013/14 will be a challenging year with the introduction of new delivery models; for example the creation of the Buckinghamshire Learning Trust and Buckinghamshire Care.
- you have already identified schemes to reflect the majority of savings required but as at 31 March 2013 £60m of savings are still to be identified for 2016/17. You recognise that recurrent savings will become more difficult to identify throughout the medium term but anticipate the second phase of your Transformation Programme should help you to achieve your aim of becoming a leaner council focussed on the commissioning rather than delivery of services. This approach also aims to deliver cost and efficiency savings.

Acknowledgements

This Letter has been agreed with the Service Director (Finance and Commercial Services) and will be presented to the Regulatory and Audit Committee on 19 November 2013.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by your staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

You presented us with draft accounts on 27 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced 1 July 2013. Your finance team produced a high quality set of financial statements, together with supporting working papers.

Issues arising from the audit of the accounts

There were no material issues arising from our audit of your financial statements and management agreed to adjust the financial statements for all identified misstatements, with one exception.

Our testing of transactions in other revenues identified internal recharges and budget virements which had not been excluded from the financial statements and resulted in the overstatement of both income and expenditure in the Comprehensive Income and Expenditure Statement. These overstatements were not amended in the financial statements. They did not have an impact on your reported financial position because it affected both income and expenditure.

We encountered some delays in the audit process this year due to difficulties experienced in interrogating the financial ledger and obtaining evidence to support some figures in the financial statements.

Annual Governance Statement

Management made some minor adjustments to the Annual Governance Statement so that it reflected the limited assurance opinions issued by Internal Audit during the year.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Regulatory and Audit Committee at the Council). We presented our report to the Regulatory and Audit Committee on 24 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on your 2012/13 accounts on 27 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of your financial position and of the income and expenditure recorded by you.

Section 3: Value for Money

Value for Money

Scope of work

The Code describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

Whether you have proper arrangements in place for securing financial resilience. You have robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enable you to continue to operate for the foreseeable future.

Whether you have proper arrangements for challenging how you secure economy, efficiency and effectiveness. You are prioritising your resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered your arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our overall conclusion is whilst you face some significant risks and challenges, your current arrangements for achieving financial resilience are adequate.

Challenging economy, efficiency and effectiveness

We have reviewed whether you have prioritised your resources to take account of the tighter constraints within which you are required to operate and whether you have achieved cost reductions and improved productivity and efficiencies.

We have reviewed your strategic financial planning and decision making processes and your achievement of savings. Your plans to become a Commissioning Council are progressing well and you have already established a number of alternative service delivery models. The next phase of your Transformation Programme includes a Target Operating Model which will provide a roadmap for your ambition to become a leaner organisation, primarily commissioning rather than providing services

.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by you. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm your entitlement to funding.

We will certify one claim for the financial year 2012/13 relating to expenditure of £99 million.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

Our work on certification of grant claims is on-going. Our work to date identified some amendments to the Teachers' Pension Contributions return which was submitted a week after the 31 May deadline. More detailed findings will be reported in our Grant Certification report upon completion of our work.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	117,450	TBC
Grant certification fee	8,500	TBC
Pension Fund Fee	25,033	25,033
Total fees	**150,983**	**TBC**

Fees for other services

Service	Fees £
None	Nil

The final fee will be discussed and agreed with the Service Director (Financial and Commercial Services). All fees under the Audit Commission Act 1998, including the above, are subject to final determination by the Audit Commission.

Our grant certification work is on-going. We will report the final fee at the conclusion of our work.

Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report (including Financial Resilience reported findings)	September 2013
Certification report	To be issued before February 2014
Annual Audit Letter	October 2013

Grant Thornton

Grant certification work plan for Buckinghamshire County Council

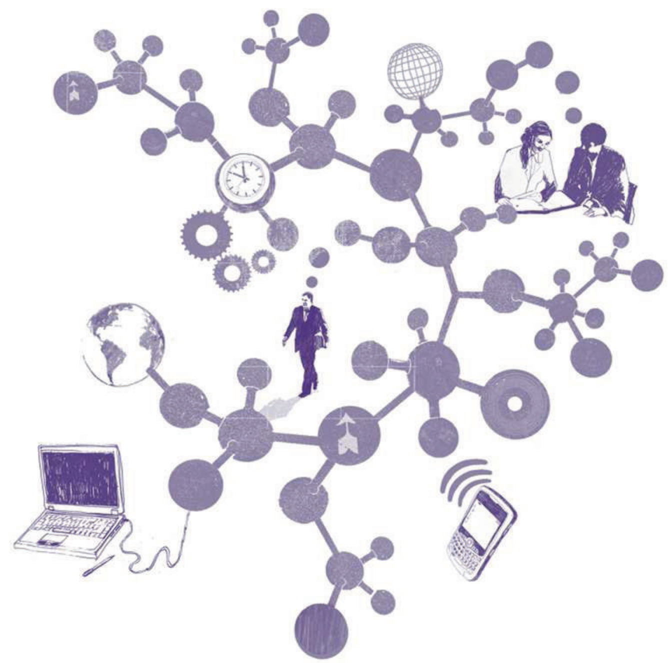
Year ended 31 March 2013

October 2013

Paul Grady
Director
T 0207 728 3196
E paul.d.grady@uk.gt.com

Iain Murray
Senior Manager
T 0207 728 3328
E iain.g.murray@uk.gt.com

Julian Gillett
Executive
T 01293 554061
E julian.gillett@uk.gt.com



Contents

Our approach to grant certification work

Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information.

The Audit Commission makes certification arrangements with grant-paying bodies, including confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and set out the specific procedures to be applied in examining the claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

As your appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission.

Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return. The arrangements for 2012-13 are:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data
- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on your financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work where possible.

Role of all parties

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role & responsibility
Grant paying body	Sets conditions of grant and deadline for submission for pre-certified and certified claims
Audit Commission	Issues certification instructions for auditor work
Council	Submits claims for certification to the Appointed Auditor within grant paying body submission deadlines
Appointed Auditor	Certifies claims in accordance with Audit Commission certification instructions and within certification deadlines

Your role in set out in more detail below:

- the Finance Manager (Assets & Accounting) is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to claims and returns
- you should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement
- you should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from grant paying bodies
- grant-paying bodies usually require your certificate to be given by an appropriate senior officer. This is typically the Chief Finance Officer or an officer authorised by written delegated powers
- you should monitor arrangements with any third parties involved in the certification process.

Claims history

The only return in 2011-12 that was audit was:

- Teachers' pensions return

This is the only return that will need to be audited in 2012-13.

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification
- without qualification but with agreed amendments incorporated by the Council or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because you have not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by you or claw back funding which has already been provided or has not been returned.

In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which may impact on the certification fee.

Certification work fees

The Audit Commission sets an indicative scale fee for grant claim certification based on 2010/11 actual certification fees for each council. The indicative scale fee for you is £8,500. This fee is based on the following assumptions:

- there will be no change in the scope of our work due to the control environment in place during the year
- you provide adequate working papers to support each entry in the claim/return
- your staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries.

Where there is any significant variation from these assumptions, we will discuss a variation to the indicative scale fee with you and the Audit Commission.

You have identified all claims and returns requiring certification and this information is incorporated into Appendix A to this plan.

Administration

When each expected claim or return is completed, a copy of the signed claim should be sent to Julian Gillett at the following address:

Grant Thornton UK LLP
Fleming Way
Manor Royal
Crawley
RH10 9GT

- The **original** claims and returns should be retained by you.
- If additional claims and returns are identified by either us or you they will be incorporated into the appendix in this plan
- All claims and returns listed in appendix A should be sent to us, even if below the de minimis limit so that we can confirm that no certification is required. We are required to report the value of these claims to the Audit Commission in our annual certification report.

Managing the certification process – our role

- We intend to certify all claims and returns in accordance within the deadlines set by the Audit Commission. If we receive any claims after your submission deadline, we will endeavour to certify them within the Audit Commission deadline but, where this is not possible, within three months from receipt
- A copy of each certified claim or return will be sent to the relevant named contact when the certification process is complete, along with a copy of the qualification letter, where applicable
- Copies of the certification instructions can be provided on request for any new claims or returns
- We expect to complete the certification of all claims by late 2013 and will issue a grant certification report highlighting any issues that need to be brought to your attention.

Appendix A: Summary of expected claims & returns for the year ended 31 March 2013

Claim (CI reference)	Authority deadline	Certification deadline	Claim certified in prior year	Prior year outcome
Teachers' pensions return (PEN05)	30/06/2013	29/11/2013	Yes	Certified without qualification but with agreed amendments incorporated by the Council