Date: 15 July 2011

To: Members of the Finance & Audit Services Select Committee

Mr PAS Hall (Chairman)	Mr MS Hulbert
Ms DM Taylor (Vice-Chairman)	Mr J Moore
Mrs R Camamile	Mr K Morrell
Mr DM Gould	

Copy to all other Members of the Council

(Other recipients for information)

Dear Councillor

There will be a meeting of the Finance, Audit & Performance Committee in the Council Chamber, Council Offices, Hinckley on **Monday, 25 July 2011** at **6.30 pm,** and your attendance is required.

The agenda is set out overleaf.

Yours sincerely

Denise Bonser
Democratic Services Officer

FINANCE, AUDIT & PERFORMANCE COMMITTEE

25 JULY 2011

A G E N D A

1. APOLOGIES AND SUBSTITUTIONS

2. DECLARATIONS OF INTEREST

   To receive verbally from members any disclosures which they are required to make in accordance with the Council's code of conduct or in pursuance of Section 106 of the Local Government Finance Act 1992. **This is in addition to the need for such disclosure to be also given when the relevant matter is reached on the Agenda.**

3. MINUTES OF PREVIOUS MEETING

   To confirm the minutes of the meeting of the Finance & Audit Services Select Committee held on 18 April 2011. Copy attached marked 'FAP1'.

4. INTRODUCTION TO INTERNAL AUDIT

   Chris Williams from RSM Tennon will present a verbal report.

5. INTERNAL AUDIT PROGRESS REPORT

   Report of RSM Tenon attached marked 'FAP2' (pages 1 - 32).

6. THE PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL AUTHORITIES – SETTING OF PRUDENTIAL INDICATORS 2011/12 AND TREASURY MANAGEMENT STRATEGY 2011/12

   Report of Deputy Chief Executive (Corporate Direction) attached marked 'FAP3' (pages 33 - 56).

7. STATEMENT OF ACCOUNTS 2010/11

   Report of Deputy Chief Executive (Corporate Direction) attached marked 'FAP4' (pages 57 - 62).

8. FINAL OUTTURN 2010/11

   Report of Deputy Chief Executive (Corporate Direction) attached marked 'FAP5' (pages 63 - 70).

9. BURBAGE COMMON AND HOLLYCROFT PARK INCOME

   Report of Chief Officer, Business, Contract & Street Scene Services attached marked 'FAP6' (pages 71 - 73).

10. WORK PROGRAMME 2011/12

To consider items for the 2011/12 work programme for the Committee.

11. REVISION OF MEETING DATES

Revision of meeting dates for Finance, Audit and Performance Committee from 3 monthly to 6 weekly as agreed at Council on 5 July 2011. Agreement sought for additional dates.

12 September 2011, 31 October 2011, 12 December 2011, 30 January 2012, 19 March 2012 and 30 April 2012.

Report No FAP1

HINCKLEY & BOSWORTH BOROUGH COUNCIL
FINANCE & AUDIT SERVICES SELECT COMMITTEE

18 APRIL 2011 AT 6.30 PM

PRESENT: Mr PAS Hall – Chairman

Mr DM Gould, Mr MR Lay, Mr K Morrell, Mr BE Sutton and Mr R Ward.

Officers in attendance: Mrs D Bonser, Mr D Bunker, Mr S Kohli and Miss R Owen.

Mark Jones and Eleanor Shirtliff of PricewaterhouseCoopers LLP and Rob Barnett and Chris Williams of RSM Tenon were also in attendance.

571 APOLOGIES

Apologies for absence were submitted on behalf of Mr PR Batty and Ms BM Witherford.

572 DECLARATIONS OF INTEREST

No interests were declared at this stage.

573 MINUTES (FASC49)

On the motion of Mr Ward, seconded by Mr Lay it was

RESOLVED – the minutes of the meeting held on 14 February 2011 be agreed and signed by the Chairman.

574 2010/11 DRAFT AUDIT PLAN (FASC50)

Representatives of Pricewaterhouse Coopers LLP presented the Audit Plan for 2010/11 which contained an analysis of risks, the audit strategy and audit timetable. It was reported that included in the report were aspects that were most relevant to the authority following a year of transition.

In response to a Member's question regarding IFRS, it was explained that many authorities were behind in implementing the new standards but that HBBC was catching up. The implementation had been very resource intensive and had added to pressure of work on major projects, identifying savings and revising budgets following the announcement of the financial settlement and producing end of year accounts, all whilst dealing with reduced staffing and resources.

With regard to misstatements, Members were reminded that it had been agreed previously that those over £10,000 (either individual misstatements of that amount, or cumulative misstatements) would be reported to the Select Committee and were asked whether they wished to increase this amount as it was relatively low given the turnover of the authority. Members agreed to keep the figure for reported misstatements at over £10,000.

RESOLVED –

(i) the Audit Plan be endorsed;

(ii) the minimum amount for misstatements reported to Members be kept at £10,000.

575 INTERNAL AUDIT PROGRESS REPORT (FASC51)

The Select Committee received the final internal audit progress report of 2010/11 presented by RSM Tenon. It was stated that five of the 13 recommendations were classed as medium risk, and all recommendations had been accepted by management. Attention was drawn to an error on page 46 of the agenda under the review of Building Control Fees which should have listed the status of recommendations as one not implemented and one superseded.

With regard to one recommendation which would not be implemented until September, it was explained that this was a recommendation regarding privacy of payment details when making card payments over the telephone. Due to the need to consider options and if necessary purchase new software this could not be implemented immediately.

576 INTERNAL AUDIT ANNUAL REPORT 2010/11 (FASC52)

Representatives of RSM Tenon presented their Annual Report which provided an opinion on the adequacy and effectiveness of the council's governance, risk management and control arrangements. It was confirmed that RSM Tenon was able to give a positive assurance to the Committee.

Members expressed concern with regard to the Community Safety review which was listed on page 58 of the agenda and the suggestion that improvements were required in order to prevent reputational damage (rather than financial). In response it was stated that the paragraphs in the Annual report were taken from the progress reports produced throughout the year and did not take account of improvements made since then. It was requested that an update be provided on the Community safety review.

At this juncture, the Accountancy Manager gave a brief presentation on IFRS as requested at the previous meeting.

The Chairman then thanked the officers for supporting the Committee, and members of the Committee thanked the Chairman and agreed that the work of the Select Committee had been very positive.

(The meeting closed at 7.40 pm)

RSM Tenon

HINCKLEY AND BOSWORTH BOROUGH COUNCIL

Internal Audit Progress Report

Finance and Audit Select Committee Meeting – 25th July 2011

CONTENTS

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Board and senior management of Hinckley and Bosworth Borough Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

1. INTRODUCTION

1.1 The periodic internal audit plan for 2011/12 was approved by the Finance and Audit Select Committee on 14th February 2010. This report summarises the outcome of work completed to date against that plan, and Appendix A provides cumulative data in support of internal audit performance.

2. FINAL REPORTS ISSUED

2.1 We have finalised 7 reports since the last Committee meeting; these are in the areas of:

- Car Parks
- Trade Waste and Bulky Items Disposal
- Performance Management
- Local development Framework
- Financial Regulations
- Masterplan
- Supporting People

2.2 The executive summaries and agreed action plans for recommendations classified as 'High' and 'Medium' risk are included at Appendix B. Full reports of all recommendations including 'Low' risk can be provided upon request. The 'Low' risk recommendations are not included in this report, as it is felt that time and attention should be focused on the more significant risks facing the Authority (i.e. 'High' and 'Medium' recommendations).

3. KEY FINDINGS FROM INTERNAL AUDIT WORK

3.1 We have raised 15 recommendations across the 7 reviews that are being presented to this Committee; 8 recommendations have been classified as Medium Risk and the remaining 7 have been classified as Low risk.

3.2 The Medium Risk recommendations raised as part of the reviews relate to:

- **Car Parks** – 'Unexplained' amounts of income shown on transaction listings relating to Kings Security collections need to be investigated and properly accounted for (see Page 6).
- **Car Parks** – Kings Security need to be involved in the above process, to ensure that the company provides sufficient information to enable income to be matched to collection source.

- **Car Parks** – Kings Security did not provide a report regarding the temporary loss of a cash box in a timely manner. The report has now been provided.
- **Financial regulations** – Waivers are not formally logged onto a register to provide and maintain an audit trail (see Page 20).
- **Financial regulations –** Waivers are not consistently approved in accordance with the Financial Procedure Rules and consultation with the Procurement Manager has not always happened as stipulated in the Regulations.
- **Financial regulations** – There are instances identified where the ordering process is not carried out in accordance with the Council's rules.
- **Supporting People** – We were not able to view the Supporting People contract for 2011/12, partly because the Supporting People's Officer was new in post and could not locate a copy. However, it was explained that the contract is an extension from previous years (see Page 29).
- **Supporting People** – There is no reconciliation undertaken by Finance between actual income received from LCC and budgeted income.

3.3 To date, no issues have arisen that could impact on our annual opinion.

4. WORK IN PROGRESS OR PLANNED

4.1 For all remaining audits, audit commencement dates have been agreed with the auditees and all assignment planning sheets have been issued.

4.2 Four audits are in progress. These relate to Budgetary Control, Rents, Risk Management and Health and Safety.

5. LIAISON WITH MANAGEMENT AND EXTERNAL AUDIT

5.1 Our management staff meets regularly with the Deputy Chief Executive (Corporate Direction), as well as other members of senior management to discuss the progress of the internal audit work.

6. CHANGES TO OUR PLAN

6.1 There has been one key change to the Plan since the last Committee meeting. This concerns the audit of the Revenues and Benefits operations (Council tax, NNDR, and Housing Benefits) which are now a shared service with Harborough and North West Leicester District Councils. RSM Tenon will be undertaking the combined audit of these areas, and this will result in an overall saving in audit days for each Council.

APPENDIX A: HINCKLEY AND BOSWORTH BOROUGH COUNCIL – OPERATIONAL PLAN PERFORMANCE 2011/12

Detailed below is a summary of the work undertaken in 2011/12 to date, showing the levels of assurance given and the number of recommendations arising. Reports being considered at this Committee are shown in ***bold and italics***. Definitions with regard to the levels of assurance and the classification of recommendations are provided overleaf.

Auditable Area	Start Date	Debrief date	Draft report issued	Responses received	Final report issued	Audit Committee	Audit approach	Audit Days	Assurance level given	Number of Recommendations Made				
										H	M	L	In Total	Agreed
Work completed to date														
Car parks	***09/05/11***	***16/05/11***	***02/05/11***	***16/06/11***	***16/06/11***	***25/07/11***	***Key Controls***	***6***	***GREEN***	***0***	***3***	***0***	***3***	***3***
Trade Waste (new VAT allowances)	***31/05/11***	***08/06/11***	***16/06/11***	***27/06/11***	***28/06/11***	***25/07/11***	***Key Controls***	***6***	***GREEN***	***0***	***0***	***2***	***2***	***2***
Performance Management	***06/06/11***	***10/06/11***	***22/06/11***	***01/07/11***	***01/07/11***	***25/07/11***	***Key Controls***	***6***	***GREEN***	***0***	***0***	***3***	***3***	***3***
Local Development Framework	***16/05/11***	***23/06/11***	***N/A***	***N/A***	***4/07/11***	***25/07/11***	***Key Controls***	***5***	***GREEN***	***0***	***0***	***0***	***0***	***0***
Financial Regulations	***31/05/11***	***23/06/11***	***03/07/11***	***14/07/11***	***18/07/11***	***25/07/11***	***Key Controls***	***4***	***GREEN***	***0***	***3***	***1***	***4***	***4***
Master Plan	***16/05/11***	***24/06/11***	***05/07/11***	***14/07/11***	***18/07/11***	***25/07/11***	***Key Controls***	***5***	***GREEN***	***0***	***0***	***0***	***1***	***1***
Supporting people / Wardens	***13/06/11***	***17/06/11***	***7/07/11***	***13/07/11***	***14/07/11***	***25/07/11***	***Key Controls***	***6***	***GREEN***	***0***	***2***	***0***	***2***	***2***
							Totals to date:	**38**		**0**	**8**	**7**	**15**	**15**

RSM Tenon

Work in progress or yet to start (including reports still in draft)

Budgetary Control and Budget Setting	11/07/11						Key Controls	8						
Rent Collection and Arrears	11/07/11						Key Controls	5						
Risk Management	11/07/11						Advisory	5						
Health and Safety	18/07/11							8						
Corporate Governance	03/10/11							5						
VAT	01/11/11							8						
Treasury Management	12/09/11							6						
General Ledger/ Main Accounting System	14/11/11							8						
Asset Register	03/10/11							8						
Creditors	05/09/11							8						
Income and Debtors	05/09/11							8						
Payroll	31/10/11							8						
Housing Benefit (shared service)*	31/10/11							70*						
Council Tax (shared service)*	28/11/11							-*						
NNDR (shared service)*	28/11/11							-*						
IT Strategy	12/09/11							6						

	IT Contract / Maintenance	12/09/11							10						
	Data Protection and Freedom of Information	17/10/11							6						
	New Council Office Development	03/10/11							5						
	Public Consultations / Citizens Panel	12/12/11							6						
	Key Performance Indicators	01/08/11							5						
	Project Management	25/07/11							5						
	Planning	12/09/11							6						
	Enforcement	01/08/11							6						
	Community Safety	25/07/11							5						
	Housing Allocations & Voids	05/09/11							7						
	Housing Repairs	05/12/11							10						
	Homelessness	12/09/11							6						
	Contracts Review	On-going							10						
	Counter Fraud	TBC							10						
	Follow Up	On-going							10						
	Spot Checks (Bank Accounts at Sheltered Housing Schemes)	On-going							5						
	Audit Management	N/A							25						
	TOTAL								298						

NB * Shared Service Revenues and Benefits Reviews Days – 70 = total number of days for combined review of three audit areas, Council Tax, NNDR, and Housing Benefits. Final costs are to be apportioned between each of the three District Councils.

APPENDIX B: HINCKLEY AND BOSWORTH BOROUGH COUNCIL – EXECUTIVE SUMMARIES AND ACTION PLANS

CAR PARKS

1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Car Parks was undertaken as part of the approved internal audit periodic plan for 2011/12.

Within the Council, Business, Contract and Street Scene Services manage 28 car parks throughout the Borough. In the immediate area of Hinckley town centre there are 19 car parks of which 18 are pay and display. There is one further pay and display car park at Market Bosworth. Annual income from car parks is in the region of £500,000 per annum.

The pay and display car parks are divided into two categories; short stay and long stay. The 9 short stay car parks are generally those closer to the town centre. The last increase in car park fees and charges was in 2009. Since that time, the overall economic climate has not been conducive to further increases, and the Council has sought to balance income maximisation against the continued economic well-being of the Borough, and of Hinckley town centre in particular.

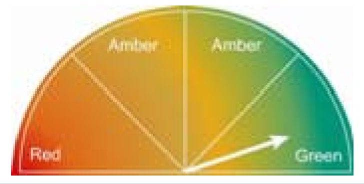
Income is collected and banked by Kings Security. All pay and display machines are emptied on a weekly collection rota, and amounts are reconciled by Council staff. Income figures are used for analysis of trends, and recently there has been further analysis to attempt to predict the impact on parking of various on-going and forthcoming developments within Hinckley. In addition, Council staff have begun to consider the potential for income generation from parking, possibly through shared services with other boroughs, or with integration with the commercial / private sector.

Enforcement of parking restrictions in Council run car parks is run through a partnership with other district councils and Leicestershire County Council.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	To ensure that all income due to the Council from fees for car parking is properly received and accounted for.
Risk	Car Parks are not effectively managed or controlled and income is not accounted for.

1.2 CONCLUSION



Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- Car park fees and charges are set annually after due consideration of relevant factors that impact and influence the balance between income maximisation and the more general economic well-being of the town.
- The management of Council car parks is generally well controlled, with income being collected and banked in a timely manner.
- There is evidence that HBBC management are taking a strategic approach to analysing future income trends and opportunities, together with associated costs, in a realistic manner.
- There is a good level of information available to the public regarding car park locations, season tickets, penalties, and fees and charges.

Application of and compliance with control framework

- Car Park income is banked in a timely manner, although further work is required to ensure that income can be accurately reconciled.
- As noted during the December 2010 audit of Exchequer Services in 2010:-

  "During the audit the contract between KINGS and Hinckley and Bosworth Borough Council could not be located. Without the existence of a signed contract, there is a risk that the parties involved are not aware of their responsibilities and a risk of disputes". A recommendation was made that: - "The signed contact should be located. If the contract cannot be located a replacement contract should be drawn up and signed by both parties". It is not the intention to repeat the recommendation at this time, but the 2010 recommendation will be followed-up in due course.

1.3 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Limitations to the scope of the audit:

- We will undertake an assessment of the adequacy of aspects of the control framework and we will undertake limited testing to confirm its operation in practice. Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

1.4 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	0	0
Application of control framework	0	3	0
Total	**0**	**3**	**0**

The recommendations address the risks within the scope of the audit as set out below:

	Priority		
Risk	High	Medium	Low
Car Parks are not effectively managed or controlled and income is not accounted for.	0	3	0
Total	**0**	**3**	**0**

Recommendations implemented since the previous audit in this area:

Date of previous audit: May 2009			
Assurance:	**Fundamental**	**Significant**	**Merits Attention**
Number of recommendations made during previous audit	0	2	0
Number of recommendations implemented	0	2	0
Recommendations not yet fully implemented:	**0**	**0**	**0**

2. ACTION PLAN

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1	All 'unexplained' amounts appearing on the transactions listings should be highlighted and analysed by the Streetscene Support Supervisor and the Chief cashier.	Medium	Y	This process should be routinely carried out.	July 2011	Caroline Roffey
2	Discussions should be held with Kings Security to ensure that banked cash amounts can be clearly matched to source (i.e. individual car parks, and ideally, pay and display individual machines).	Medium	Y	This will be discussed and included in the Service Level Agreement.	September 2011	Caroline Roffey
3	The Council should ensure that the incident report is provided by Kings, and that it provides reassurance that the loss of cash boxes will not reoccur.	Medium	Y	This has already been actioned.	June 2011	Caroline Roffey

TRADE WASTE / BULKY ITEMS COLLECTION AND DISPOSAL

1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Trade Waste / Bulky Items Collection and Disposal was undertaken as part of the approved internal audit periodic plan for 2011/12.

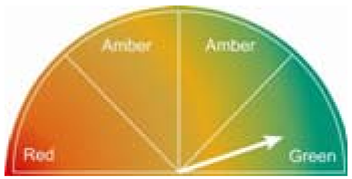
The collection of Waste from Schools has been developed by the Council during the last two years, partly as a means to generate income. The Council is seeking to expand Waste and Recycling Collection Services to commercial businesses and this is still at an early stage, with the Council currently charging for collections from only 13 businesses, the majority being within Hinckley town centre. Negotiations have been proceeding with Nuneaton and Bedworth Borough Council regarding a Service Level Agreement to carry out their existing Trade Waste operation, and consideration is also being given to expansion of the service across the wider Borough area. However, at the time of the audit, there was no confirmation that either of these proposals would be going ahead, at least in the near future.

For Bulky item collection and disposal, a 2009 review set out plans to reduce the operational expenditure involved in the collection of bulky waste, to improve the service offered and to increase external income. Since that time the service has continued to be developed, with allowances for increases to fees and charges as appropriate.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	To provide an efficient and effective Trade Waste / Bulky Items Collection and Disposal service
Risk	The Council does not operate the Trade Waste / Bulky Items Collection and Disposal collection service in the most efficient and effective manner.

1.2 CONCLUSION



Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- There are documented policies and procedures in place where applicable.
- There is evidence to show that the Authority is developing both areas to provide efficient services, and also to generate income.
- There is evidence of regular management reporting of progress and developments in these areas.
- The publicising of the Trade Waste service (via the Council web-site) needs improvement.

Application of and compliance with control framework

- Collection arrangements and income collection appear to be operating effectively.
- Minor areas where improvements to supporting documentation could be made were found, but these should be easy to implement.

1.3 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Limitations to the scope of the audit:

- We will undertake an assessment of the adequacy of aspects of the control framework and we will undertake limited testing to confirm its operation in practice. Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

1.4 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	0	0
Application of control framework	0	0	2
Total	**0**	**0**	**2**

The recommendations address the risks within the scope of the audit as set out below:

	Priority		
Risk	**High**	**Medium**	**Low**
The Council does not operate the Trade Waste / Bulky Items Collection and Disposal collection service in the most efficient and effective manner.	0	0	2
Total	**0**	**0**	**2**

Recommendations implemented since the previous audit in this area:

Date of previous audit: 8 June 2011			
Assurance:	**Fundamental**	**Significant**	**Merits Attention**
Number of recommendations made during previous audit	0	0	2
Number of recommendations implemented	0	0	2
Recommendations not yet fully implemented:	**0**	**0**	**0**

2. ACTION PLAN – No 'High' or 'Medium' Risk Recommendations were raised as part of this review.

PERFORMANCE MANAGEMENT

1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Performance Management was undertaken as part of the approved internal audit periodic plan for 2011/12.

The Council operates the 'TEN' performance management system. This is a computerised system accessed via the Council's intranet, and is a version of the same system used by a number of other local authorities. The system has been developed at HBBC over the last four years, and now includes coverage of primarily local indicators, as there has been a decreasing requirement from central Government and from Leicestershire County for reporting on specific areas of activity. In 2011/12, 73 indicators are included in the system, the majority of which are reviewed and up-dated on a monthly basis.

The TEN system also includes coverage of Departmental Service Improvement Plans (SIPs) for each of the eleven key Service Areas within the Council. These detail the intended areas of progress throughout the Council, and dovetail with the five main Council strategic 'Aims', as set out in the five year Corporate Plan 2009-14. The Performance Indicators are also arranged against these five Aims, and overall performance against both the SIPs and the Indicators is combined in a 'dashboard'.

The Council has compiled guidance notes for each individual PI. In addition, there is a document "PI working paper and evidence guidance" which gives guidance on areas such as; the maintenance and review of good working papers and evidence, reasonableness tests, as well as showing an example PI Data Quality Management Summary Sheet. There are also separate guidance documents relating to data quality, and these have been compiled in-line with the wider Data Quality Strategy chart.

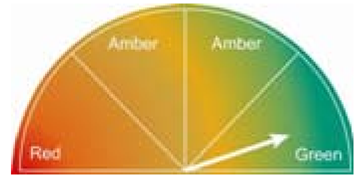
Management use the TEN system to analyse performance initially at service area manager level at team meetings within the Corporate Direction and Community Direction areas, and within Business Development and Streetscene Services. These meetings help to ensure that information is kept up-to-date by managers. Information within TEN is clearly accessible and easy to interpret (by use of red / green for below / above target performance, and issues arising can then be taken forward through the management structure to Chief Officers and the Executive.

A separate audit review concentrating on a sample of specific performance indicators and ensuring that these have been correctly calculated will be completed later in 2011.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	To provide senior management with appropriate, accurate and timely data to assist and inform the decision-making process.
Risk	The Performance Management framework does not provide senior management with appropriate, accurate or sufficient information to assist operational decision-making.

1.2 CONCLUSION



Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- The TEN performance management system is relatively straightforward for managers to use. It is on-line, and includes guidance and explanations. Information held is also easy to access and to understand, making it a useful tool for management.
- The system has been fine-tuned over the previous years to ensure that only those areas of performance which are key to enabling efficient management and monitoring are included.

Application of and compliance with control framework

- The TEN Performance Management system is up-dated at regular, monthly intervals, allowing management to continuously monitor progress in key areas.
- There is evidence to show that the system is being used as intended, consistently and effectively, and that it does provide useful information to the management process.

1.3 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Limitations to the scope of the audit:

- We will undertake an assessment of the adequacy of aspects of the control framework and we will undertake limited testing to confirm its operation in practice.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

1.4 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	0	0
Application of control framework	0	0	3
Total	**0**	**0**	**3**

The recommendations address the risks within the scope of the audit as set out below:

	Priority		
Risk	High	Medium	Low
The Performance Management framework does not provide senior management with appropriate, accurate or sufficient information to assist operational decision-making.	0	0	3
Total	**0**	**0**	**3**

2. ACTION PLAN – No 'High' or 'Medium' Risk Recommendations were raised as part of this review.

LOCAL DEVELOPMENT FRAMEWORK

1. EXECUTIVE SUMMARY

INTRODUCTION

1.1 INTRODUCTION

An audit of Local Development Framework was undertaken as part of the approved internal audit periodic plan for 2011/12.

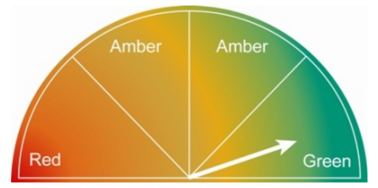
The audit was designed to provide assurance that the regeneration of Hinckley town centre is achieved in a structured, economic and effective manner and in line with local expectations and co-operation.

Three documents within the Local Development Framework (LDF) have been adopted by the Council; Statement of Community Involvement; Core Strategy and the Local Development Scheme (LDS). The Statement of Community Involvement details the methods by which the Council will liaise with its stakeholders throughout the development of the LDF. The Core Strategy sets out the key strategic aims and overarching policies for development of the Borough. The Local Development Scheme details all documents that will be included within the LDF and how they will be monitored to ensure that results are achieved. Finally, an additional document, the Hinckley Town Centre Area Action Plan has also been compiled, and this was formally approved and adopted in September 2010. The plan details the planning policy and key developments to take place in Hinckley town centre between now and 2026.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	To undertake and achieve the regeneration of Hinckley town centre in a structured, economic and effective manner and in line with local expectations, and co-operation.
Risk	Failure to effectively and efficiently regenerate Hinckley Town centre Failure to have an adequate budget to meet the cost of the Local Development Framework.

1.2 CONCLUSION



Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- The Local Development Framework is the set of documents underlying the Local Development Scheme, which sets out the aim for land use in the Borough. This was last updated by the Council in June 2010, the previous version of the Scheme covered the period 2007-2010.
- The Core Strategy sets out the overarching strategy and core policies, and was adopted in December 2009.

Application of and compliance with control framework

- Key documents are in place for reviewing and monitoring progress.
- Financial monitoring and budget estimate spread sheets have been compiled to increase control and decision-making in this area. Assumptions underlying areas of potential future expenditure are supported by logical explanations and calculations as appropriate.

1.3 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Limitations to the scope of the audit:

- We will undertake an assessment of the adequacy of aspects of the control framework and we will undertake limited testing to confirm its operation in practice.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.
- We will undertake a review of the budgetary provision and make an assessment on the assumptions made in making the budgetary provisions.

The approach taken for this audit was a Risk-Based Audit.

2. ACTION PLAN - No Recommendations were raised as part of this review.

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FINANCIAL REGULATIONS

1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Financial Regulations was undertaken as part of the approved internal audit periodic plan for 2011/12.

A review of the Council's Financial Procedure Rules is undertaken periodically with the aim of focussing on particular areas identified by senior management to ensure that the Financial Procedure Rules remain current, communicated, understood and adhered to by all staff.

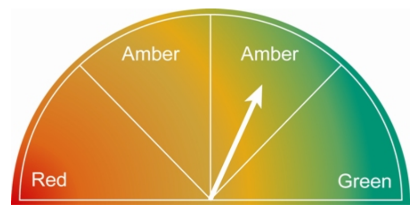
The Council's Financial Procedure Rules in relation to waivers (section 16, 'Exceptions') and orders for work, goods and services (section 16) were specifically reviewed. Discussions were held with the Procurement Manager and Deputy Chief Executive (Corporate Direction) to focus on the above areas; information was requested from Members of the Corporate Operations Board (COB) and other delegated authorities regarding waivers that have been presented for approval to the Senior Leadership Board (SLB). Whilst examples of waivers were provided, a comprehensive list could not be obtained as there is no formal register for waivers.

We examined a sample of waivers and confirmed that a process is in place for requesting the Financial Procedure Rules to be waived. The request is required to be approved by a member of SLB. For the sample tested, we noted that there were instances of inconsistencies for requesting a waiver in particular for the waiving of the regulations where a sole supplier is involved. We also noted in relation to orders for work, goods and services that there are areas where the procedures are not stringently followed. As a result of the above, we have made recommendations detailed in Section 2 of this report.

The audit was designed to assess the controls in place to manage the following objectives and risk:

Objective	To ensure that all financial matters within the Council are properly and fully governed by clear, up-to-date, documented Regulations and that these are adhered to by staff at all levels.
Risk	Council requirements and regulations are not clearly set out, authorised, reviewed, communicated to staff, leading to a lack of compliance and possible losses due to fraud or error, inefficient processing or inappropriate activity.

1.2 CONCLUSION



Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- Financial Procedure Rules are in place, were last reviewed in June 2010 and are available to all staff.
- Training in relation to Finance Procedure Rules and the Principles of Procurement is provided to all new staff and those with procurement responsibilities.

Application of and compliance with control framework

- Waivers are not formally logged onto a register to provide and maintain an audit trail.
- Waivers are not consistently approved in accordance with the Financial Procedure Rules and consultation with the Procurement Manager has not always happened as stipulated in the Regulations.
- There are instances identified where the ordering process is not carried out in accordance with the Council's rules.

1.3 SCOPE OF THE REVIEW

The objective of our audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- We will undertake an assessment of the adequacy of aspects of the control framework and we will undertake limited testing to confirm its operation in practice.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

1.4 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	0	0
Application of control framework	0	3	1
Total	**0**	**3**	**1**

The recommendations address the risks within the scope of the audit as set out below:

	Priority		
Risk	**High**	**Medium**	**Low**
Council requirements and regulations are not clearly set out, authorised, reviewed, communicated to staff, leading to a lack of compliance and possible losses due to fraud or error, inefficient processing or inappropriate activity.	0	3	1
Total	**0**	**3**	**1**

2. ACTION PLAN

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1	a) Procurement staff should maintain a register of waivers received from the departments to ensure that an audit trail can be maintained. b) Although the Financial Procedure Rules already state that all waivers should be made in consultation with the Procurement Manager, the requirement for all waiver forms to be passed to Procurement should also be clearly stated on the waiver request form. This will facilitate the process of maintaining a register.	Medium	Y	A specific Waiver Request Form will be drafted and linked to the FPR for consistency. The requirement for consultation with the Procurement Manager will be stated on this form. Procurement can maintain a register of waivers received but this will also be reliant upon services consulting with procurement in the first instance.	Form completed by end July. Appended to FPR in next revision of FPR.	Julie Kenny Julie Kenny
2	a) All waivers should be approved by a member of SLB in accordance with the Financial Procedure Rules. b) All waiver requests should also go to the Procurement Manager for consultation.	Medium	Y	SLB are aware of the procedures around the granting of waivers. A further training programme is to be delivered during 2011/12 which will cover this is more detail.	End July with training to take place throughout 2011/12	SLB

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
3	a) It is recommended that the Financial Regulations are reviewed to further clarify when waivers are required, including the rules regarding the financial cut-off points (£5,000) as applied to standard contract tendering procedures. b) Instances of non-compliance with Financial Regulations in this area should be notified to SLB.	Low	Y	Will be considered during next revision of FPR.	Dec 2011	Julie Kenny
4	a) It is recommended that the Financial Procedure Rules be reviewed to include a paragraph regarding the 'Orders for Work, Goods and Services'. The regulation could be worded to state that: "Orders for work, goods and services must be made by the person receipting the goods or services. Orders must subsequently be authorised in accordance with authorised approvers and their approval limits". b) Instances of non-compliance should continue to be monitored and appropriate action taken. c) Management should consider introducing a statement where staff members sign to confirm that they have read and understood the Council's Financial Procedure Rules. This can also be achieved via a centralised policy acceptance system.	Medium	Y	Will be considered during next revision of FPR.	Dec 2011	Julie Kenny

MASTERPLAN

1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of the Masterplan was undertaken as part of the approved internal audit periodic plan for 2011/12.

When working on the Hinckley and Bosworth “Core Strategy” in 2006, the Council found there was general support for concentrating the majority of development in the Hinckley Urban Core. In the following year a technical assessment of different “Directions for Growth” concluded that land south of Earl Shilton and also land west of Barwell were considered to be the most appropriate location for mixed use urban extensions.

The Hinckley and Bosworth Core Strategy was finally adopted in 2010 following an independent public examination and confirmed that urban extensions should be allocated through the means of Area Action Plans. The Core Strategy sets out the vision, spatial strategy and objectives for the district. All other Local Development Documents should be in general conformity with the Core Strategy.

The Local Development Scheme (LDS) is a document that sets out the local planning authority’s programme for the production of Local Development documents. The LDS contains information regarding Area Actions Plans, Development Plans and Supplementary Plans for the Council. The LDS includes the establishment of the Local Development Framework (LDF), which consists of a series of statutory planning documents setting out the Council's planning strategy for the local authority planning area. The requirement to produce the LDF documentation is in line with the Planning and Compulsory Purchase Act 2004.

The 'Masterplan' was the name by which the key elements of the Council's on-going re-development process were known up until December 2010. The developments are now known separately as the Hinckley Town Centre Area Action Plan (HTCAAP), and the Barwell and the Earl Shilton Area Action Plans.

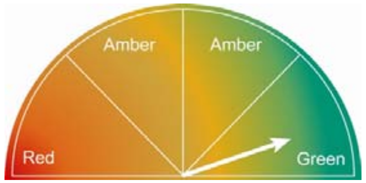
The HTCAP was formally adopted by Council on March 21st 2011. The initial consultation process for the Barwell and Earl Shilton AAPs was completed in February 2011, and currently the formal AAPs are being prepared before further consultation in autumn 2011.

It should be noted that the Action Plan process only relates to the production of the relevant planning documents (including inspections, consultations, legal advice, document printing), and not to any actual physical development activity such as erecting buildings.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	To provide a coherent strategy for the development of town centres within the Borough and to ensure continued progress against this strategy.
Risk	Progress against the Masterplan is not monitored / reported, funding streams are not identified and the letting of contracts or establishment of partnerships does not comply with Council policy and procedure.

1.2 CONCLUSION



Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- There is evidence of the establishment of a framework of stages to ensure that the Area Action Plans progress in line with long-term planning strategies.
- There is evidence to show that financial commitments are being forecast in a logical and consistent manner.
- Information regarding the Area Action Plans is easily available, and there has been a proper process of public consultation.

Application of and compliance with control framework

- Although there is reference to the Local Development Framework within the Council's risk register, which serves to cover the Area Action Plans, the risk has not been up-dated since September 2010, contrary to the Council's Risk Management policy.
- Budgetary control now appears effective, with on-going forecasts being monitored against out-turn, and also being used for management decision-making.
- All required public consultations and other legal requirements appear to be progressing as required.

1.3 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Limitations to the scope of the audit:

- We will undertake an assessment of the adequacy of aspects of the control framework and we will undertake limited testing to confirm its operation in practice.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.
- A separate audit of the Local Development Framework has also been completed.

The approach taken for this audit was a Risk-Based Audit.

1.4 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	**Medium**	**Low**
Design of control framework	0	0	1
Application of control framework	0	0	1
Total	**0**	**0**	**1**

The recommendations address the risks within the scope of the audit as set out below:

	Priority		
Risk	**High**	**Medium**	**Low**
Progress against the Masterplan is not monitored / reported, funding streams are not identified and the letting of contracts or establishment of partnerships does not comply with Council policy and procedure.	0	0	1
Total	**0**	**0**	**1**

No recommendations were made during the last review of this area, which was completed in December 2008.

2. ACTION PLAN – No 'High' or 'Medium' Risk Recommendations were raised as part of this review.

SUPPORTING PEOPLE (HOUSING RELATED SUPPORT)

1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

An audit of Supporting People / Wardens was undertaken as part of the approved internal audit periodic plan for 2011/12.

The Council's coverage of this area is undertaken in conjunction with the Leicestershire County Council (LCC) 'Vulnerable People's" work and is now known as 'Housing related Support. A contract between both parties is in place for the 11 sheltered schemes across the Borough; the current contract was due to end in December 2011, but LCC has recently extended this for a further twelve months. A five year strategy (2010-15) has been documented which defines the aims and objectives of delivering Housing Related Support for members within the Partnership. Services are provided by HBBC, although the prices charged to users of the service are controlled by LCC.

An annual contract review, known as the 'Quality Assessment Framework' (QAF), is undertaken by the Contract Officer in order to provide recommendations and an overall score based on criteria defined by LCC. The last QAF was completed in May 2011; as a result of this assessment HBBC were required to prepare an action plan providing details of planned improvements to its housing related support services for presentation to the County Council in June 2011.

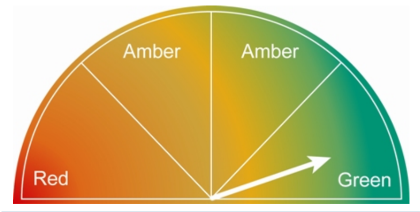
The current contract with LCC is now scheduled to end in December 2012, and thereafter, the housing related support service will be put out to tender. HBBC have recognised the impact of the loss of the contract and are currently considering mitigating plans which includes a project for tendering the services, reviewing its current operation at the Clarendon House Control Centre and developing existing best practices with the Council's joint working partnership with North West Leicestershire District Council.

Also as part of the approved audit plan for 2011/12, an audit of tenant's funds maintained across the Borough's sheltered schemes is due to be completed by undertaking a series of audit visits across the year. The first four of the visits were completed during this Supporting People audit, and further visits will be made later during the year. These first four visits did not identify any concerns regarding tenant funds. A separate report regarding the visits to sheltered schemes will be provided to management upon completion of the exercise.

The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	To provide an efficient and effective support service to at risk sections of the public.
Risk	Failure to maintain Supporting People Funding.

1.2 CONCLUSION



Taking account of the issues identified, the Council can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

- We were not able to view the Supporting People contract for 2011/12, partly because the Supporting People's Officer was new in post and could not locate a copy. However, it was explained that the contract is an extension from previous years.
- Quarterly returns are completed and submitted to LCC in a timely manner in accordance with their contract.
- Hinckley and Bosworth Borough Council are taking action to ensure that any recommendations made by the Supporting People Officer (at LCC) are acted upon to improve the service and for HBBC to be better prepared when the Supporting People service is tendered.

Application of and compliance with control framework

- There is no reconciliation undertaken by Finance between actual income received from LCC and budgeted income.

1.3 SCOPE OF THE REVIEW

Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- We will undertake an assessment of the adequacy of aspects of the control framework and we will undertake limited testing to confirm its operation in practice.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was a Risk-Based Audit.

1.4 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	0	1	0
Application of control framework	0	1	0
Total	**0**	**2**	**0**

The recommendations address the risks within the scope of the audit as set out below:

	Priority		
Risk	High	Medium	Low
Failure to maintain Supporting People Funding.	0	2	0
Total	**0**	**2**	**0**

2. ACTION PLAN

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1	A copy of the current signed contract or extension agreement between HBBC and Leicestershire County Council (LCC) defining the service levels between both parties should be located and retained by HBBC.	Medium	Y	Copy to be obtained	August 2011	Older Persons Manager
2	a) Further liaison should be undertaken between the Council and LCC during the Supporting People budget process to help minimise variances between forecast and actual LCC income. b) The Finance Department should reconcile the actual income received to that expected as per the budget in order to manage expenditure accordingly.	Medium	Y	a) It should be noted that budgets are prepared up to 6 months prior to the commencement of the financial year concerned. The two authorities need to ensure that their budget processes are in step and HBBC include in their budget the estimate of income due included by the County in their budget b) This should form part of the budget monitoring process	Sept 2011 Immediate	Accountancy Manager

REPORT NO FAP3

FINANCE, AUDIT AND PERFORMANCE COMMITTEE – 25 JULY 2011

REPORT OF THE DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

THE PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL AUTHORITIES – SETTING OF PRUDENTIAL INDICATORS 2011/12 AND TREASURY MANAGEMENT STRATEGY 2011/12

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1. PURPOSE OF REPORT

This report outlines the Council's prudential indicators for 2011/12 – 2013/14 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:

- The reporting of the **prudential indicators,** setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities - Appendix A). The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management Code of Practice;
- The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007 – Also Appendix A);
- The **treasury management strategy statement** which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix B;
- The **investment strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance. And also shown in Appendix B.

The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

2. RECOMMENDATIONS

The Select Committee is recommended to approve each of the key elements of these reports, and recommend these to Council:

1. The Prudential Indicators and Limits for 2011/12 to 2013/14 contained within Section 3 Part A of the report, including the Authorised Limit Prudential Indicator.
2. The Minimum Revenue Provision (MRP) Statement contained within Section 3 Part A which sets out the Council's policy on MRP.
3. The Treasury Management Strategy 2011/12 to 2013/14, and the treasury Prudential Indicators contained within Section 3 Part B.
4. The Investment Strategy 2011/12 contained in the treasury management strategy Part 3 Section B and the detailed strategy in Appendix 1.

3. BACKGROUND

A The Capital Prudential Indicators 2011/12 – 2013/14

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2013/14.
2. Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 20011/12 to 2013/14 is included as Appendix B to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

The Capital Expenditure Plans

3. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:
   - Service objectives (e.g. strategic planning);
   - Stewardship of assets (e.g. asset management planning);
   - Value for money (e.g. option appraisal);
   - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
   - Affordability (e.g. implications for the council tax and rents);
   - Practicality (e.g. the achievability of the forward plan).

4. The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.
5. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.
6. The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to the poor condition of the property market.
7. The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

Table 1

Capital Expenditure £'000	**2010/11 Original**	**2010/11 Revised**	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**
Non-HRA	6,539	9,134	2,025	1,266	928
HRA	2,824	3,152	2,594	2,594	2,594
Total	9,363	12,286	4,619	3,860	3,522
Financed by:					
Capital receipts	3,976	3,403	1,557	978	640
Capital grants	1,992	3,517	305	165	165
Capital reserves	0	0	0	0	0
Revenue	2,101	2,275	2,092	2,052	2,052
Net financing need for the year	**1,294**	**3,091**	**665**	**665**	**665**

The Council's Borrowing Need (the Capital Financing Requirement)

8. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.
9. The Council is asked to approve the CFR projections below:

Table 2

£'000	**2010/11 Original**	**2010/11 Revised**	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**
Capital Financing Requirement					
CFR – Non Housing	11,524	13,490	11,182	10,919	10,656
CFR - Housing	2,487	1,970	2,512	3,054	3,596
Total CFR	**14,011**	**15,460**	**13,694**	**13,973**	**14,252**

Movement in CFR	**938**	**2,648**	**-1,766**	**279**	**279**

Movement in CFR represented by					
Net financing need for the year (above)	1,294	3,091	665	665	665
Less MRP/VRP and other financing movements	356	443	2,431	386	386
Movement in CFR	**938**	**2,648**	**-1,766**	**279**	**279**

10. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP). No revenue charge is required for the HRA.

11. CLG Regulations have been issued which require full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement

12. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

    - **Existing practice** - MRP will follow the existing practice outlined in former CLG Regulations (Option 1);

    These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

13. From 1 April 2008 for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be

    - **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)

    These options provide for a reduction in the borrowing need over approximately the asset's life.

The Use of the Council's Resources and the Investment Position

14. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 3

Year End Resources £'000	2010/11 Original	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Fund balances	3,139	3,415	2,938	2,834	2,731
Capital receipts	0	650	0	0	0
Earmarked reserves	3,039	2,626	2,236	2,102	1,998
Provisions	318	308	206	104	0
Contributions unapplied	460	182	121	61	0
Total Core Funds	**7,956**	**7,181**	**5,501**	**5,101**	**4,729**
Working Capital*	1,000	1,000	1,000	1,000	1,000
Under borrowing	8,211	9,160	7,394	7,673	7,952
Expected Investments	**745**	**0**	**0**	**0**	**0**

*Working capital balances shown are estimated year end; these may be higher mid year

Affordability Prudential Indicators

15. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

16. **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 4

%	2010/11 Original	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Non-HRA	0.06	4.6	4.3	4.3	4.3
HRA	20.1	39.8	39.2	39.2	39.2

17. The estimates of financing costs include current commitments and the proposals in this budget report.

18. **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with ***proposed changes*** to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

19. **Incremental impact of capital investment decisions on the Band D Council Tax**

Table 5

£	Original 2010/11	Proposed Budget 2010/11	Forward Projection 2011/12	Forward Projection 2012/13	Forward Projection 2013/14
Council Tax - Band D	0.63	1.83	-2.18	0.07	0.30

20. **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

21. **Incremental impact of capital investment decisions Housing Rent levels**

Table 6

£	Original 2009/10	Proposed Budget 2009/10	Forward Projection 2010/11	Forward Projection 2011/12	Forward Projection 2012/13
Weekly Housing Rent levels	0.00	0.00	0.00	0.00	0.00

22. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls

B. Treasury Management Strategy 2011/12 – 2013/14

1. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Appendix A consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992. .
2. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 30 June 2003

3. As a result of adopting the Code the Council also adopted a Treasury Management Policy Statement (30 June 2003). This adoption is the requirements of one of the prudential indicators.
4. The Constitution require an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.
5. This strategy covers:
   - The Council's debt and investment projections;
   - The Council's estimates and limits on future debt levels;
   - The expected movement in interest rates;
   - The Council's borrowing and investment strategies;
   - Treasury performance indicators;
   - Specific limits on treasury activities;

Debt and Investment Projections 2011/12 – 2013/14

6. The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. The expected maximum debt position during each year represents the Operational Boundary prudential indicator, and so may be different from the year end position. The table also highlights the expected change in investment balances.

Table 7

£'000	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
External Debt				
Debt at 1 April	12,812	15,460	13,694	13,973
Expected change in debt	2,648	-1,766	279	279
Debt at 31 March	15,460	13,694	13,973	14,252
Operational Boundary	**15,460**	**13,694**	**13,973**	**14,252**
Investments				
Total Investments at 31 March	**0**	**0**	**0**	**0**
Investment change	**0**	**0**	**0**	**0**

7. The related impact of the above movements on the revenue budget are:

Table 8

£'000	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Revenue Budgets				
Interest on Borrowing	140	-93	15	15
Related HRA Charge	31	29	29	29
Net General Fund Borrowing Cost	109	-122	-14	-14
Investment income	**0**	**0**	**0**	**0**

Limits to Borrowing Activity

8. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits

9. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2010/11 and the following two financial years (the relevant comparative figures are highlighted). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Table 9

£'000	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Gross Borrowing	15,460	13,694	13,973	14,252
Less Investments	0	0	0	0
Net Borrowing	$\boxed{15,460}$	13,694	13,973	14,252
CFR*	15,460	13,694	13,973	$\boxed{14,252}$

* - Under the Prudential Code revision any falls in the CFR are ignored.

10. The Deputy Chief Executive (Corporate Direction) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

11. The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

12. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

13. The Council is asked to approve the following Authorised Limit:

Table 10

Authorised limit £'000	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Borrowing	19,460	17,694	17,973	18,252
Other long term liabilities	92	56	28	0
Total	19,552	17,750	18,001	18,252

14. Borrowing in advance of need – The Council has some flexibility to borrow funds this year for use in future years. The Deputy Chief Executive (Corporate Direction) may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Deputy Chief Executive (Corporate Direction) will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 20% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 12 months in advance of need.

15. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

Expected Movement in Interest Rates

Table 11

Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	25 year	50 year
2010/11	0.5	0.7	1.5	2.6	4.6	4.7
2011/12	0.7	0.9	1.8	3.5	5.3	5.3
2012/13	1.7	1.9	2.8	4.0	5.4	5.4
2013/14	3.1	3.3	3.8	4.8	5.6	5.6
2014/15	4.0	4.2	4.5	5.6	5.6	5.8
2015/16	4.0	4.2	4.2	5.3	5.5	5.5

- Borrowing Rates

16. There is significant uncertainty with economic forecasts. Whilst short-term rates are expected to remain on hold through most of 2011, inflationary concerns are increasing. Inflation has been above the 2% target for so long the credibility of the MPC may become a greater focus. This will make the MPC's decisions during 2011 a difficult judgment; control inflation or continue to aid the recovery? The MPC

will be particularly concerned that the public's inflation expectations could become unhinged. There is a risk that the MPC may feel they will need to take action earlier than Q4, i.e. Q3, in order to reinforce its credibility.

17. The recovery in the economy is well underway; however, the strong rates of growth we have seen are unlikely to be sustained. The Government's determination to cut the size of the public sector deficit will be a drag upon activity in the medium term. The void left by significant cuts in public spending will need to be filled by a number of alternatives – corporate investment, rising exports (assisted by the fall in the value of sterling) and consumers' expenditure. In terms of sheer magnitude, the latter is the most important and strong growth in this area is by no means certain. The combination of the desire to reduce the level of personal debt, lack of access to credit and continued job uncertainty is likely to weigh heavily upon spending. This will be amplified by fiscal policy tightening, in the Comprehensive Spending Review. Without growth in personal spending remaining robust, any recovery in the economy is set to be weak and protracted.

18. Fiscal support in the US through the extension of tax cuts and monetary support through the extension of quantitative easing (QEII, with the potential for further easing), has had an adverse effect on world bond markets. Following the recent sell off the outlook for long-term interest rates is favourable in the near term, but is set to deteriorate again in the latter part of 2011. The increase in yields will be suppressed by continued investor demand for safe haven instruments following the uncertainties and unfolding tensions within the entire Eurozone. In addition to this, the market has been underpinned by evidence of moderating activity in major economies and the coalition government's determination to deal with the parlous state of public sector finances. These two factors will restrict any deterioration in longer term fixed interest rates in the near term.

19. However, while the UK's fiscal burden will almost certainly ease, it will be a lengthy process and deficits over the next two to three financial years will still require a very heavy programme of gilt issuance. The latest Bank Inflation Report suggests the market will not be able to rely upon Quantitative Easing indefinitely to alleviate this enormous burden.

20. Eventually, the absence of the Bank of England as a continued buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper.

21. This incentive will take the form of higher yields. The longer end of the curve will suffer from the lack of support from the major savings institutions – pension funds and insurance companies - who will continue to favour other investment instruments as a source of value and performance.

22. Although the FSA has recently delayed implementation of their liquidity requirements, the regulator will still look to ensure banks have

necessary short term liquidity. The front end of the curve will benefit from this and will ensure the steeply-positive incline of the yield curve remains intact.

Borrowing Strategy 2011/12 – 2013/14

23. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

24. Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The Deputy Chief Executive (Corporate Direction), under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

25. With the likelihood of long term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Deputy Chief Executive (Corporate Direction) and treasury consultants will monitor prevailing rates for any opportunities during the year.

26. Following the Comprehensive Spending Review the PWLB increased borrowing interest rates by approximately 1%, without changing debt redemption interest rates. This will make PWLB debt rescheduling more problematic in the future.

27. The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.

Investment Strategy 2011/12 – 2013/14

28. **Key Objectives -** The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time, then ensuring adequate liquidity, with the investment return being the final objective. Following the economic background above, the current investment climate has one over-riding risk, counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

29. **Risk Benchmarking** – A development in the revised Codes and the CLG Investment Guidance is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature. Additional background in the approach taken is attached at Annex B2.

30. These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates

and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

31. Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.24% historic risk of default when compared to the whole portfolio.

32. Liquidity – In respect of this area the Council seeks to maintain:

- Bank overdraft - £1m
- Liquid short term deposits of at least £1m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.75 years, with a maximum of 1 year.

33. Yield - Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

34. And in addition that the security benchmark for each individual year is:

Table 12

	1 year	2 years	3 years	4 years	5 years
Maximum	0.24%	0.78%	1.48%	2.24%	3.11%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

35. **Investment Counterparty Selection Criteria -** The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

36. The Deputy Chief Executive (Corporate Direction) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Council may use rather than defining what its investments are.

37. The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

38. Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

39. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- **Banks 1 - Good Credit Quality** – the Council will only use banks which:

    i. Are UK banks; and/or

    ii. Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA

    And have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

    i. **Short Term** – F1

    ii. **Long Term** – A

    iii. **Individual / Financial Strength** – C (Fitch / Moody's only)

    iv. **Support** – 3 (Fitch only)

- **Banks 2 – Guaranteed Banks with suitable Sovereign Support** – In addition, the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

    - (a) wholesale deposits in the bank are covered by a government guarantee;

    - (b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and

    - (c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

- **Banks 3 – Eligible Institutions** - The organisation was considered an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions were subject to suitability checks before inclusion.
- **Banks 4** – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies**– the Council will use all Societies which:
    i. meet the ratings for banks outlined above

    Or are both:

    ii. Eligible Institutions; and

    iii. Have assets in excess of £500m.
- **Money Market Funds** – AAA
- **UK Government** (including gilts and the DMADF)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

A limit of 100% will be applied to the use of Non-Specified investments.

40. **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

- no more than 5% will be placed with any non-UK country at any time;
- limits in place above will apply to Group companies;
- Sector limits will be monitored regularly for appropriateness.

41. **Use of additional information other than credit ratings** – Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

42. **Time and Monetary Limits applying to Investments -** The time and monetary limits for institutions on the Council's Counterparty List are as

follows (these will cover both Specified and Non-Specified Investments):

Table 13

	Fitch (or equivalent)	Money Limit	Time Limit
Limit 1 Category	AAA	£5m	3yrs
Limit 2 Category	AA	£5m	3yrs
Limit 3 Category	A	£3m	2yrs
Other Institution Limits	-	£2m	1yr
Guaranteed Organisations	-	£2m	6mths

43. The proposed criteria for Specified and Non-Specified investments are shown in Annex B1 for approval.

44. In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

45. The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the longer term investment limits.

46. **Economic Investment Considerations** - Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid/late-2011. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

47. **The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Deputy Chief Executive (Corporate Direction) may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.**

48. Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, and

strongly rated institutions. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements

49. Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Table 14

£m	**2011/12 Estimated + 1%**	**2011/12 Estimated - 1%**
Revenue Budgets		
Interest on Borrowing	0	0
Net General Fund Borrowing Cost	0	0
Investment income	0	0

Treasury Management Limits on Activity

50. There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits
- Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

51. The Council is asked to approve the limits:

Table 15

£m	2011/12	2012/13	2013/14
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	16	16	16
Limits on variable interest rates based on net debt	4	4	4
Maturity Structure of fixed interest rate borrowing 2011/12			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£5m	£5m	£5m

Performance Indicators

52. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate

The results of these indicators will be reported in the Treasury Annual Report.

Treasury Management Advisers

53. The Council uses Sector as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;

- Credit ratings/market information service comprising the three main credit rating agencies;

54. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

4. FINANCIAL IMPLICATIONS

These are contained in the body of the report

5. LEGAL IMPLICATIONS

There are none arising directly from this report

6. CORPORATE PLAN IMPLICATIONS

Delivery of the Prudential Indicators contributes to the achievement of Strategic Objective 3: “Deliver the Councils Medium Term Financial with a sustained focus on the Council’s priorities whilst working to resolve the continuing pressure of service requirements in the context of available resources”.

7. RISK IMPLICATIONS

It is the Council’s policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer’s opinion based on the information available, that the significant risks associated with this decision/project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report/decision were identified from this assessment:

Management of Significant (Net Red) Risks		
Risk Description	Mitigating Actions	Owner
Failure to achieve planned level of capital expenditure on the Capital Programme	Monitor expenditure via Budget Monitoring process and Capital Forum	Ilyas Bham
Failure to generate sufficient Capital Receipts and/or grants and other external funding to support the proposed programme	Look to revise the programme to bring spend into line with available resources	Ilyas Bham

8. KNOWING YOUR COMMUNITY- EQUALITY AND RURAL IMPLICATIONS

Schemes in the Capital Programme cover all services and all areas of the Borough including rural areas

9. CORPORATE IMPLICATIONS

By submitting this report, the report author has taken the following into account:

- Community Safety Implications
- Environmental Implications
- ICT Implications
- Asset Management Implications
- Human Resources Implications
- Voluntary Sector Implications

Background Papers:	Capital Programme 2010/11 to 2013/14
	The CIPFA Prudential Code
	Treasury Management Policy
	Revenue Budget 2011/12
Contact Officer:	David Bunker, Accountancy Manager ext 5609

Appendix 1

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 30 June 2003 and will apply its principles to all investment activity. In accordance with the Code, the Deputy Chief Executive (Corporate Direction) has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£)**
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds -** These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings £3m £3m
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£3m
c.	**The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.**	£3m
d.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a	£2m

	credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £500m, but will restrict these type of investments to £2m	
e.	Any **bank or building society** that has a minimum long term credit rating of A, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
f.	Any **non rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a limit of £2m for a period of 6 months	£2m

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Deputy Chief Executive (Corporate Direction), and if required new counterparties which meet the criteria will be added to the list.

Appendix 2

Security, Liquidity and Yield Benchmarking

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service - A proposed development for Member reporting is the consideration and approval of security and liquidity benchmarks.

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are :

- Investments – Internal returns above the 7 day LIBID rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. However they have not previously been separately and explicitly set out for Member consideration. Proposed benchmarks for the cash type investments are below and these will form the basis of future reporting in this area. In the other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - £1m
- Liquid short term deposits of at least £1m available with a week's notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – shorter WAL would generally embody less risk. In this respect the proposed benchmark is to be used:

- WAL benchmark is expected to be 0.75 years, with a maximum of 1 year.

Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch/Moody's Standard and Poors long term rating category over the period 1990 to 2009.

Years	1	2	3	4	5
AAA	0.00%	0.01%	0.05%	0.10%	0.17%
AA	0.03%	0.06%	0.08%	0.14%	0.20%
A	0.08%	0.22%	0.37%	0.52%	0.70%
BBB	0.24%	0.68%	1.19%	1.79%	2.42%
BB	1.22%	3.24%	5.34%	7.31%	9.14%
B	4.06%	8.82%	12.72%	16.25%	19.16%
CCC	24.03%	31.91%	37.73%	41.54%	45.22%

The Council's minimum long term rating criteria is currently "A", meaning the average expectation of default for a one year investment in a counterparty with a "A" long term rating would be 0.08% of the total investment (e.g. for a £1m investment the average loss would be £800). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- 0.055% historic risk of default when compared to the whole portfolio.

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.24%	0.68%	1.19%	1.79%	2.42%

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

FINANCE, AUDIT AND PERFORMANCE COMMITTEE – 25 JULY 2011

REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)
RE: STATEMENT OF ACCOUNTS 2010/11

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1. PURPOSE OF REPORT

To bring the draft Statement of Accounts 2010/11 to the attention of the Committee.

2. RECOMMENDATION

That the Committee note the draft Statement of Accounts for 2010/11.

3. BACKGROUND TO THE REPORT

Under the terms of the Accounts and Audit Regulations each Local Authority is required to prepare a Statement of Accounts by 30 June following the end of the year to which they relate. This draft statement is signed by the Section 151 Officer as being a True and Fair Statement of the authority's financial performance during the year and of its financial position at the year end. This has been achieved for 2001/11 and the draft statement is attached to this report.

The Accounts and Audit Regulations also require that the Accounts are approved by members and published by 30 September each year. Between June and September the accounts will be subject to external audit and the auditors findings will be brought before members at a meeting of the Committee on 12 September 2011 and full Council on 27 September 2011

The statement has been prepared according to the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the code). For the first time the requirements of the code have been prepared on the basis of the reporting requirements of International Financial Reporting Standards (IFRS) rather than UK Generally Accepted Accounting Practice (UKGAAP). In his Budget Statement in 2006 the then Chancellor of the Exchequer announced that from April 2008 for Central Government bodies (including the NHS) and 2009 for Local Government and similar bodies (e.g. Police and Fire Authorities) the published statement of accounts was to be based on IFRS principles rather than UKGAAP. These deadlines were later put back by 12 months so that Central Government bodies produced their first IFRS accounts for the year 2009/10 and Local Government is producing its first set of IFRS accounts for 2010/11.

The application of Accounting Standards to published accounts is nothing new and started in the commercial sector in the 1970's with the development of domestic Statements of Standard Accounting Practice (SSAP's). These were developed in order to aid the comparability of accounts ensuring that they were prepared on a consistent basis and to avoid misstatements that may impact on the users of the accounts decisions. Local Government started to adopt SSAP's in the 1980's and has more recently adopted a Statement of Recommended Practice (SORP) which was based on UKGAAP which is the practical application of SSAP's and Financial Reporting Standards that have superseded them. Standards are set by the Financial Reporting Council, which is made up of representatives of the various Accountancy bodies.

The application of Accounting Standards to Local Authority Accounts has in the past resulted in a conflict as to what needs to be included in the cost of services from an accounting point of view and the costs actually incurred in delivering the services for which the council collects Council Tax and is paid Central Government Grant. In order to avoid increases in local taxation resulting purely from changes in accounting practice and convention Central Government have made regulations that allow local authorities to take out the amounts included to comply with Accounting Standards and include the amounts that comply with statute. These adjustments are made through unusable reserves. Examples of this are Charges for the use of fixed assets where depreciation is included in the Cost of services above the line but taken out below the line and replaced with an interest charge and Minimum Revenue provision for the repayment of borrowing to reflect the financing costs of acquiring the asset and the charge for pensions where the cost of the annual accrual of benefits by employees is included in cost of services but taken out below the line and replaced by the employers contribution to the Pension Fund

The application of International Accounting Standards is intended to ensure comparability between published accounts for all organizations on a worldwide basis.

The presentation of the information in the statement has changed radically from that used for 2009/10 as well as the treatment of certain items within the accounts which are detailed below. Comparative figures for 2009/10 have been restated to reflect the new presentation and accounting treatment.

The statement comprises the Main Financial Statements

- Statement of Movements in Reserves
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement

Plus accompanying notes

Together with the following supplementary Statements

- Housing Revenue Account
- Housing Repairs Account
- Collection Fund

Plus accompanying notes

The Statement also includes

- An explanatory foreword
- Statement of Accounting Policies
- Glossary of Terms

The main areas of change in accounting practice that affect this Council are

a) Leases

Leases can be defined as operating or finance leases. A finance lease can be defined as lease where the lessor uses the majority of the economic life of an asset over the lease or acquires the benefits and liabilities of ownership, an operating lease is a lease that is not a finance lease. Under a finance lease the asset is included in the balance sheet and is depreciated in the normal way. The financing cost is charged to income and expenditure.

The main area of impact for this Council related to the Waste Management Service Vehicles which were treated as being acquired under an operating lease but when tested turned out to be a finance lease. In the past the full payment to the leasing company has been charged to the service under IFRS the following transactions are required

At the inception of the lease create an asset and an equal long term liability

Each year the following transactions are required

In the Cost of Services the maintenance element of the lease payment and the charge for depreciation

In the Financing and investment income and expenditure the interest element of lease payment

In the Reserve movements statement the reversal of the depreciation and a charge for minimum revenue provision equal to the capital element of the lease payment.

b) Compensating absence provisions

It is assumed that employees accrue leave entitlement evenly throughout the year but actually take the leave in discreet blocks so that if the employee's leave year and the organisation's financial year do not coincide, at the end of the financial year for each employee there will be an amount of leave either under or overtaken. IFRS requires organsiations to accrue for this variation in the accounts so there is a charge in the cost of services but regulations allow local authorities to reverse the charge out to a reserve.

c) Grants unapplied

In certain cases grant awarding bodies pay grants to the council before the expenditure they are intended to finance has been incurred. In the past these grants have been held in a Grants unapplied account in the balance sheet until they have been required to finance expenditure. Under IFRS if the grant conditions have been met and there is no longer a requirement to repay the grant the authority needs to recognize the income in the Income and Expenditure Account and transfer the unused proportion to reserves. When the grant is required it will require a transfer from reserves to finance the expenditure.

<u>Notable items in the Accounts for 2010/11</u>

1. Non distributed costs

This item includes a credit of £5,716,000 in respect of a past pension service gain arising from the Chancellor of the Exchequer's announcement in the Emergency Budget in June 2010 that Public Sector Pensions would be uprated by the Consumer Prices Index (CPI) rather than the Retail Prices Index which has been traditionally higher than the CPI. This in effect reduces the long term liability in the scheme as going forward the amount of pensions payable will be lower than previously anticipated. This amount is included in the Income and Expenditure Account but reversed out under statute to the Pensions Reserve.

2. Planning

This head includes a charge of £7,156,000 in respect of a market value impairment on the Atkins Building which was previously carried at cost and is now carried at a valuation as the work has been completed. Revaluations are normally dealt with via a revaluation reserve but in this case there were insufficient previous upward revaluations in the reserve relating to this asset to absorb the impairment. Under accounting practice this impairment is charged to the Income and Expenditure Account but reversed out under statute to the Capital Adjustment Account both the Revaluation Reserve and Capital Adjustment Account are unusable reserves that cannot be used to support future service expenditure.

3. Housing Revenue Account

Included within the Expenditure on the Housing Revenue Account is £45,852,000 in respect of a market value impairment of the value of the Council's Housing Stock. For accounting purposes the Housing Stock is valued at Existing Use Value – Social Housing (EUV-SH). This is to reflect the fact that the property has a sitting tenant with a secure tenancy and to reflect the fact that the rents charged for social housing are lower than those charged in the open market. The EUV-SH valuation is arrived at by determining the market value of the property then applying a discount factor. For 2010/11 the Department of Communities and Local Government set a valuation factor of 34% for authorities in the East Midlands against the previous factor of 50%. Again accounting conventions require this amount to be charged to the Income and Expenditure Account and regulations allow for the charge to be taken out to unusable reserves.

The statement presented is subject to audit and hence should be considered as a draft. The Council's external auditors, Price Waterhouse Coopers are currently carrying out their audit work and publication of the Accounts will take place following their approval by the External Auditors.

4. FINANCIAL IMPLICATIONS [DB]

There are no other financial implications other than those set out in this report by way of explanation of the completion of the Statement of Accounts under International Financial Reporting Standards.

5. LEGAL IMPLICATIONS [LH]

None other than those contained in the body of the report

6. CORPORATE PLAN IMPLICATIONS

This report contributes to the Council's Corporate Objective

"Proud of our Probity and Honesty in Governance and Management
And
Value in Service Delivery & Investment in people"

7. CONSULTATION

None

8. RISK IMPLICATIONS

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
None		

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

There are none

10. **CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account: [if you require assistance in assessing these implications, please contact the person noted in parenthesis beside the item]

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

Background Papers

Civica Authority Financials/Business Objects Reports
Accounts and Audit Regulations 2011
Cipfa Code of Practice on Local Authority Accounting in the United Kingdom

Contact Officer – David Bunker, Accountancy Manager

Executive Member : Councillor K W P Lynch

REPORT NO FAP5

FINANCE, AUDIT AND PERFORMANCE COMMITTEE - 25 JULY 2011

REPORT OF THE DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

RE FINAL OUTTURN 2010/11

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1. PURPOSE OF REPORT

To inform the committee of the financial outturn for 2010/11. (Details of the outturn can be found in the Outturn Book circulated with the Council Agenda for 5 July 2011)

2. RECOMMENDATIONS

2.1 That the Committee note the report

3. BACKGROUND

3.1 In February 2011 the Council adopted a General Fund Revised Budget for 2010/11 which indicated that £12.983m would be spent on services with £0.084m to be transferred to General Fund Balances and a net £0.110m being transferred from Earmarked Reserves. After taking account of further adjustments to the budget and savings identified in the monthly and quarterly budget monitoring exercises the final budget showed £13.380m being spent on services with £0.110m being taken from Earmarked Reserves and £0.372m being taken from General Fund Balances.

	Budget £000	Actual £000	Movement from Budget £000
Net Budget Requirement	12,110	10,634	(1,476)
Non Service Specific Grant Income	7,457	7,484	27
Available for transfer to balances or reserves	(482)	1,021	1,503
Transfer to balances	(372)	321	693
Transfer to Reserves	(110)	700	810

Table 1: General Fund Outturn Summary

	Original 2010/11 £000	Revised 2010/11 as per budget book £'000	Revised 2010/11 £000	Provisional Actual 2010/11 £000
Service Costs	13,046	12,983	13,380	12,146
Less items not chargeable to Council Tax included above				
Capital Accounting	1,894	1,808	1,758	1,690
Pensions re FRS17	(393)	(393)	(393)	(59)
Total Deduction	1,501	1,415	1,365	1,631
Gross Cost of Services to Council Tax Payer	11,545	11,568	12,015	10,515
Net Interest Paid	8	95	95	119
Met from Taxation & Grants	11,553	11,653	12,110	10,634
Council Tax	4,171	4,171	4,171	4,171
RSG & NNDR	7,386	7,386	7,386	7,386
Area Based Grant	29	29	29	40
Other grants	0	0	0	16
Collection Fund Surplus/(Deficit)	42	42	42	42
Total Tax & Grants	11,628	11,628	11,628	11,655
Available for Balances/ Reserves (+) Required from Balances/Reserves (-)	+75	-25	-482	+1,021
Suugested transfers to Balances/Reserves				
Reserves	+47	-110	-110	+700
Balances	+28	+85	-372	+321

A full list of the budgeted and proposed contributions to or from Reserves is shown in table 2.

3.2 The major variations can be summarised as follows

	£'000s (Saving)/Increase
Salaries and Wages –level of vacancies in all services greater than expected	(486)

Increased Income from Shared ICT Services	(118)
Additional Income from Recycling activities (quantity Of waste recycled and sold and recycling credits)	(116)
Additional recovery of overpaid Housing Benefit	(150)
Additional Planning fee income	(198)
Concessionary Travel – lower than anticipated demand	(103)
Car Park Income lower than anticipated due to Current economic conditions	95
Other	55

3.3. Adjustments due to application of Accounting Code of Practice

In compiling the above table a number of transactions that need to be included in the cost of services in the Statement of Accounts (and have been included in the Cost of Services in the Outturn Book) but are taken out "below the line" in determining the movement on the General Fund Balance have been excluded from the Cost of Services in the above table. These transaction arise from the receipt of information during the closedown process and relate to matters that are not determinable at the time the budget is prepared so no provision is made in the Cost of services or "below the line" in the statement of movements in the General Fund Balance. In 2010/11 three major adjustments were required to bring the Accounts into line with the requirements of the Code of Practice which, if they were reflected in the Budget Comparison would have resulted in a significant distortion of the results

These adjustments which total a net £2,124,157 are:-

a) A credit in respect of past service costs of pensions of £5,716,000 which arose from the decision of the Coalition Government announced in the Emergency Budget of 22 June 2010 that in future Public Sector Pensions would be increased in line with the Consumer Price Index rather than the historically higher Retail Price Index. This has resulted in a decrease in the Council's long term Pensions Liability as former employees will be receiving a lower pension going forward than they other wise would have

b) A debit of £362,000 as a result of Curtailment costs identified in the Actuary's valuation of the Pensions Liability/Assets

c) A credit of £2,443,477 in respect of Grants and contributions that had been received before they are applied to finance expenditure which under the requirements of IFRS need to be taken to the Revenue Account in the year they are received and any unapplied portion be transferred to an unapplied grants and contributions reserve.

d) A credit of £20,152 in respect of adjustments required to bring the Accounts into line with the Code of Practice but can be reversed out under regulations so as to have no impact on the General Fund Balance.

e) A debit of £9,941,157 in respect of a market value impairment (downward revaluation) of property assets

3.4 Members have a choice as to whether they wish to transfer some or all of the realised underspend to the General Fund Balance or whether they wish to transfer some of the underspend to specific earmarked reserves to address future pressures on service areas. Details of the proposals for the Reserve Movements are set out in the paragraph below. It is suggested that a number of transfers are in effect made from General Fund balances to Reserves as there will be a number of specific pressures in future years where it will be prudent to have earmarked resources available to meet these costs.

Earmarked Reserve Transfers

3.5 When the Revised Budget was approved by Council in February 2011 it was proposed that a net £110,000 would be transferred from Reserves. Some of the expenditure that was due to be funded from reserves in 2010/11 was not incurred in that year as the proposed schemes were delayed; therefore, it is not proposed to make the planned transfer in 2010/11 as the expenditure is likely to be incurred in 2011/12 and the transfer made then.

Table 2 below sets out the actual contributions to and from Reserves against planned transfers. Items marked * were treated as part of the movement in General Fund Balances but need to be treated as Reserve movements in the final accounts as the balances held in respect of these items need to be earmarked

Table 2: Summary of changes to planned contributions to/from Reserves 2010/11

Reserve	Planned Contribution to Reserve £'000	Actual Contribution to Reserve £'000	Planned Contribution from Reserve £'000	Actual Contribution from Reserve £'000
Benefits Reserve	30	60	30	30
Local Development Framework	136	136	50	76
Building Control*	0	10	0	0
Land Charges				
Grounds Maintenance Health & Safety	0	0	14	14
Planning Delivery Grant	0	0	137	72
Flexible Working Reserve	92	-90	110	57
IFRS Capacity Support Reserve	0	0	0	13
Election Reserve	25	25	0	0

Grounds Maintenance Machinery Replacement	25	25	0	0
Planning Legal Costs	0	0	0	20
Finance Capacity Support	0	10	0	0
Pensions Contributions	41	41	0	0
Pensions Reserve re Early Retirements	0	0	101	25
Waste Management Reserve	0	93	0	0
Masterplan/Project management	0	0	17	10
Relocation Reserve	0	182	0	0
Modern.gov	0	20	0	0
Greenfields Industrial Units		19	0	0
Future Capital Projects	0	486	0	0
TOTAL	349	1,017	459	317

3.6 After the suggested transfers the total of earmarked revenue reserves available would be £4.119m. A complete list of the proposed closing Reserves position is set out in the table in **Appendix 1**.

General Fund Balances

3.7 It is recommended that a total of £0.321m be transferred to General Fund Balances at 31 March 2011.This would leave a total closing balance of £1,982m. This meets the criteria of having 10% of net budget requirement held in balances. (The net budget requirement for 2010/11 being £10.666m)

Carry Forward of 2010/11 budgets

3.8 In a number of cases Budget Managers have identified the reason for a significant underspend as being income received in 2010/11 and delays in implementing a particular scheme or project during 2010/11 and have requested that the underspend be carried forward to 2011/12. Requests totalling a net £207,250 have been received (to be funded as detailed below).

Source of Funding	Amount
General Fund Balances	63,100
Special Expenses Balances	2,840
Reserves	58,730
Earmarked Grants and Income	4,050
Housing Revenue Account balances	78,530
Total	207,250

3.9 Details of the requests received and those recommended for approval are shown in **Appendix 2.**

Housing Revenue Account

3.10 In February 2011, the Council adopted a Housing Revenue Account Revised Budget which predicted that that £67,000 would be taken from the HRA Balance, The Outturn figure is for £161,000 to be taken to balances. (A net underspend of £228,000). The main reasons for this underspend are explained in the Outturn Book but can be summarised as follows:-

	£'000
Supervision and Management General	
Supplies and Services	38
Reduced requirement for Software Support, reduced use of Consultants and Legal services	
Supervision and Management Special	
Premises Related Expenses	91
Reduced Cost of Utilities	
Supplies and Services	41
Reduced demand for purchase and maintenance of equipment	
Income	40
Additional Income re Supporting People	

It is recommended that the total underspend of £228,000 be transferred to HRA Balance.

Housing Repairs Account

The Revised Estimate showed that an amount of £55,000 would be taken from the Housing Repairs Account balance however the outturn position shows that an amount of £105,000 can be added to balances (a net underspend of £160,000). This has principally arisen from

	£'000
Supplies and Services	73
Reduced requirements for Consultants, External Legal Costs and Audit fees	
Reduced demand for Responsive and Programmed repairs	77

3.11 Capital

An amount of £1,243,689 (summarised on page 133 within Revenue and Capital Outturn Book) will be carried forward to fund contractual commitments and delays which have occurred in 2010/11.

3.11.1 General Fund Capital Programme

The General Fund Capital Programme was under-spent by £1.060m due to delays in schemes principally Private Sector Housing Grants (£238,000), Revenues and Benefits Shared Service set up costs (£365,000) and Burbage Common enhancements (£108,000). The budgets in relation to these item will be carried forward to the new year when the money will be spent.

3.11.2 Housing Revenue Account (HRA) Capital Programme

The HRA Capital Programme was underspent by £442,000 made up principally of an underspend of £148,000 on the repairs element and an underspend of £72,000 on adaptations plus an underspend of £232,00 in respect of the new build scheme at Alexander Gardens which was delayed due to changes to the HCA funding regime following the General Election in 2010. Repairs costs and budgets were closely monitored during the year to ensure that the overall budget was not exceeded.

4 FINANCIAL IMPLICATIONS

These are contained in the report.

5 LEGAL IMPLICATIONS (AB)

These are contained within the report.

6 CORPORATE PLAN IMPLICATIONS

This report contributes to the achievement of the following Corporate Plan Priorities:

Proud of our Probity and Honesty in Governance and Management
Value in Service Delivery and Investment in People

7 RISK IMPLICATIONS

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision/project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report/decision were identified from this assessment:

Management of Significant (Net Red) Risks)		
Risk Description	**Mitigating Actions**	**Owner**
None		

8. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL MPLICATIONS**

There are none.

9. **CORPORATE IMPLICATIONS**

By submitting this report the author has taken the following into account:-

- Community Safety Implications
- Environmental Implications
- ICT Implications
- Asset Management Implications
- Human Resources Implications

Background Papers:	Civica Authority Financials reports Closedown files
Author:	Sanjiv Kohli, Director of Finance ext 5607 David Bunker Accountancy Manager ext 5609
Executive Member:	Councillor KWP Lynch

REPORT NO FAP6

FINANCE AND AUDIT SELECT COMMITTEE – 25 JULY 2011

REPORT OF CHIEF OFFICER, BUSINESS, CONTRACT & STREET SCENE SERVICES
RE: BURBAGE COMMON AND HOLLYCROFT PARK INCOME

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1. PURPOSE OF REPORT

To provide further information requested by this committee on income at Hollycroft Park Kiosk and Burbage Common Visitor Centre.

2. RECOMMENDATION

That committee note the contents of the report, the increased income from these two premises in recent years, and the intention to review these facilities at the end of summer 2011.

3. BACKGROUND TO THE REPORT

Income at Hollycroft Park kiosk and Burbage Common visitor centre is set out in the table below.

Hollycroft Park kiosk income

	2006/07	2007/08	2008/09	2009/10	2010/11
Kiosk sales				£802	£923
Bowls fees	£1613	£1404	£3042	£3243	£2,935
Tennis fees	£1748	£1130	£1864	£3283	£2341
Golf fees	£701	£413	£809	£705	£723
Total	£4062	£2947	£5715	£8033	£6922

Burbage Common Visitor Centre

	2008/09	2009/10	2010/11
Visitor Centre Sales	£1091	£884	£640
Misc income (e.g. donations)	£489	£1200	£1801
Grazing fees	£928	£938	£853
Events (craft, educational etc)	£1740	£2647	£2845
Total	£4248	£5669	£6139

Variance between 2009/10 and 2010/11 for Hollycroft is due to reduced tennis income. Tennis income increases dramatically around Wimbledon (June and July), and income is affected by the weather during the summer months.

Changes which have been made to increase income include the sale of confectionary and drinks, and increased availability of staff within Hollycroft Park and at school holidays at Burbage Common. Officers are also seeking to generate additional income from both venues in the next 12 months e.g. tennis leagues and craft activities at Hollycroft Park.

The primary purpose of Hollycroft pavilion is a sports pavilion and Burbage Common is an information centre with toilets, and neither are designed nor designated in planning or business rate terms as retail or café type premises.

At Burbage Common there is also the privately run Mays café which visitors can use. At Hollycroft Park, the majority of visitors on non event days are local residents who either live close to the park or combine a visit to the town centre where there are numerous cafes. On event days at both sites, additional catering is provided either by the Friends of Hollycroft Park or external caterers who pay a fee. Income received by the Friends of Hollycroft Park is used by this group to stage other events in the park. Income from catering concessions is used to offset the cost of staging events, for example Burbage Common Open Day. The income from event days is not shown within these figures which relate purely to kiosk and visitor centre income.

Officers will review the operation of these facilities at the end of Summer 2011 to determine future options.

4. **FINANCIAL IMPLICATIONS [TO]**

As included in the body of the report.

5. **LEGAL IMPLICATIONS (AB)**

S19 of the Local Government (Miscellaneous Provisions) Act 1976 authorises Local authorities to provide recreational facilities within its area and make such charges for such provision as it sees fit.

6. **CORPORATE PLAN IMPLICATIONS**

These facilities contribute to the corporate aim to improve our parks and open spaces.

7. **CONSULTATION**

None undertaken for this report but previous consultation for improvements at Hollycroft Park and Burbage Common have identified these facilities as important to residents.

8. **RISK IMPLICATIONS**

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

No significant risks were identified in relation to this report.

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

Not considered for this report.

10. **CORPORATE IMPLICATIONS**

None identified.

Background papers: None

Contact Officer: Caroline Roffey x5782