

South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 25th November 2010

10.00 a.m.

**Main Committee Room,
Council Offices,
Brympton Way,
Yeovil,
Somerset BA20 2HT**

The public and press are welcome to attend.

Disabled Access is available at this meeting venue.



If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Andrew Blackburn** on Yeovil (01935) 462462
email: andrew.blackburn@southsomerset.gov.uk, website: www.southsomerset.gov.uk

This Agenda was issued on Wednesday, 17th November 2010

Ian Clarke, Assistant Director (Legal & Corporate Services)



2007-2008
*Neighbourhood and
Community Champions:
The Role of Elected Members*
2006-2007
*Improving Rural Services
Empowering Communities*
2005-2006
Getting Closer to Communities

**If you need this information in large print,
Braille, audio or another language,
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Audit Committee Membership

Chairman Derek Yeomans
Vice-Chairman Ian Martin

Mike Best John Richardson
John Calvert Peter Roake
John Hann Alan Smith
Roy Mills Colin Winder

South Somerset District Council – Corporate Aims

Our key aims are: (all equal)

- Increase economic vitality and prosperity
- Enhance the environment, address and adapt to climate change
- Improve the housing, health and well-being of our citizens
- Ensure safe, sustainable and cohesive communities
- Deliver well managed, cost effective services valued by our customers

Members' Questions on Reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

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Information for the Public

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

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

1. To approve the Strategic and Annual Internal Audit Plans;
2. To receive summaries of Internal Audit reports and seek assurance from management that action has been taken.
3. To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken.
4. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken.
5. To review the annual Statement of Internal Control and monitor associated action plans.
6. To review the SSDC's Code of Corporate Governance and ensure it is kept up to date and reflects best practice. This will include regular reviews of the Council's Constitution and an overview of the risk management.
7. To receive reports from management on the promotion of good corporate governance.
8. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised.

Meetings of the Audit Committee are held monthly including at least one meeting with the Council's external auditor.

Agendas and minutes of this committee are published on the Council's website at www.southsomerset.gov.uk

The Council's Constitution is also on the web site and available for inspection in council offices.

Further information can be obtained by contacting the agenda co-ordinator named on the front page.

Audit Committee

Thursday 25th November 2010

Agenda

Preliminary Items

1. **To approve as a correct record the Minutes of the previous meeting held on 28th October 2010**
2. **Apologies for Absence**
3. **Declarations of Interest**

In accordance with the Council's Code of Conduct, which includes all the provisions of the statutory Model Code of Conduct, members are asked to declare any personal interests (and whether or not such an interest is "prejudicial") in any matter on the agenda for this meeting. A personal interest is defined in paragraph 8 of the Code and a prejudicial interest is defined in paragraph 10.

4. **Public Question Time**

Items for Discussion

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Audit Committee – 25th November 2010

5. 2010/11 Internal Audit Quarterly Update Report

Strategic Director: Mark Williams, Chief Executive
Assistant Director: Donna Parham (Finance and Corporate Services)
Lead Officer: Andrew Ellins, Audit Manager
Contact Details: andrew.ellins@southwestaudit.gov.uk

Purpose of the Report

This report has been prepared for the Audit Committee to review the progress made on the 2010-11 Annual Internal Audit Plan.

Recommendation

To note the progress made.

Background

The Audit Committee agreed the 2010/11 Internal Audit Plan at its February meeting. An update was provided in August and this report provides the latest position.

Appendix A - Detailed Quarterly Report
Appendix B - Annual Audit Plan Progress Table
Appendix C - Audit Assurance Definitions

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: None



South Somerset District Council

Report of Internal Audit Activity
Quarter 2, 2010/11

Contents

The contacts at SWAP in connection with this report are:

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Our audit activity is split between:

- **Operational Audit**
- **Key Control Audits**
- **Governance, Fraud & Corruption**
- **Managed Audits**
- **Additional Reviews**

Role of Internal Audit

The Internal Audit service for South Somerset District Council is provided by South West Audit Partnership (SWAP). SWAP adopted and works to the Standards of the Institute of Internal Auditors, but also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee at its meeting on 25th February 2010. Primarily the work includes;

- Plan of Operational Reviews
- Annual Review of Key Income Streams (Key Control Audits)
- Annual Review of Key Financial System Controls (Managed Audits)
- Annual review of key governance and fraud controls

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Management Board and External Auditors. This year's Audit Plan was reported to this Committee at its meeting in February.

Quarter 2 Outturn:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action

Internal Audit Work Programme

The schedule provided at [Appendix B](#) contains a list of all audits as agreed in the Annual Audit Plan 2010/11. This allows Members to monitor the progress of all audits in the plan.

Each assignment completed to at least draft report status includes its respective “control assurance” opinion together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as shown in [Appendix C](#).

Where assignments record that recommendations have been made to reflect that some control weaknesses have been identified as a result of audit work, these are considered to represent a less than significant risk to the Council’s operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these.

Quarter 2 Outturn:

Completed Audit Assignments In The Period

Operational Audits

Operational Audits are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Three operational reports have been completed to at least draft stage since the last audit committee meeting. All three areas received reasonable assurance and there are only two high priority actions.

For the review of the Building Control service the lead auditor concluded that 'Overall the service appears to meet its key function of checking applications; inspecting sites and ensuring that building works in South Somerset comply with regulations and are safe. The Building Control Manager has identified that future resource will be an issue if action is not taken now. By addressing this and the other recommendations made in this review; the service will be better placed to ensure the health, safety, welfare and convenience of people using the buildings constructed within the district.'

A review of VAT was recently completed and found overall the function is well controlled requiring only one medium and one low priority actions.

One of the I.T. audits was completed to draft report stage and there were only two medium priority recommendations and reasonable assurance has been given over corporate back up routines.

- Building Control
- Corporate Back Up Routines
- Value Added Tax

Quarter 2 Outturn:

Completed Audit Assignments In The Period

Key Control Audits

Key Control Audits are specific audits to provide independent annual assurance that key income streams are adequately controlled and the Council are not exposed to risks that could impact on its ability to meet its overall objectives.

Audits over four key income areas have been completed and although there have been 43 recommendations for improvement, only two of these found during the Car Parks review are high priority. All four areas below received reasonable audit assurance.

- Car Parks
- Goldenstones
- Homelessness
- Licensing

Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. Since the last quarterly report there have been three governance audits and we are pleased to report that all three reviews below found no weaknesses and received comprehensive audit assurance.

- Equalities and Diversity - Impact Assessments
- Performance - NI 179 Efficiency Statements
- Performance - NI 188 Use of Natural Resources

Quarter 2 Outturn:

Completed Audit Assignments In The Period

Managed Audits

Managed Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. These are scheduled each year to be carried out between October and the end of December. Nine managed audits are planned and most are now in progress. The plan ([Appendix B](#)) shows ten managed audits, however, in agreement with the Section 151 Officer the review of Budgetary Control will be undertaken as an element of the Main Accounting audit. At the next audit committee meeting we will be reporting the outcomes of all the managed audit reviews and expect them all to receive reasonable or comprehensive assurance.

Additional Reviews

Additional Reviews are adhoc reviews, normally non-opinion requested by the Section 151 Officer. There are two reviews so far this year which will become part of future Annual Audit Plans as they are to provide independent assurance over the fairness and accuracy of the separate accounts produced for;

- Yeovil Cemetery and Crematorium Annual Return
- Air Control Industries Site & Chard Regeneration Scheme Statement of Accounts

Both reviews have been completed and assurance provided and no priority recommendations were required.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Future Planned Work

This is detailed in [Appendix B](#) subject to any changes agreed by the Section 151 Officer.

Conclusions

For those audits still required by the client SWAP are on target to complete those audits as planned. For the audits completed to report stage each report contains an action plan with a number of recommendations which are given service priorities. Definitions of these priorities can be found in the Categorisation of recommendations section in [Appendix C](#).

So far this year SWAP has provided 82 recommendations for improvement where weaknesses in control were identified. For the last quarter we are pleased to report that no very high priority actions were identified and only four high actions requiring priority management attention were reported. Furthermore, no partial assurances were given for the audits completed in this quarter which is an indication that the audited areas are well controlled within the scope covered in each review.

Client	Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	Major - Recommendations - Minor				
							5	4	3	2	1
SSDC	Additional Review	Air Control Industries Site & Chard Regeneration Scheme Statement of Accounts	Qtr1	Complete	Non-Opinion	0	0	0	0	0	0
SSDC	Additional Review	Yeovil Cemetery & Crematorium Annual Return	Qtr1	Complete	Non-Opinion	0	0	0	0	0	0
SSDC	Governance, Fraud & Corruption	Data Quality - Performance Indicators	Qtr1	Complete	Reasonable	4	0	0	4	0	0
SSDC	Governance, Fraud & Corruption	Health & Safety - Internal Awareness and Training	Qtr1	Complete	Reasonable	3	0	0	1	2	0
SSDC	ICT - Security	Threat Protection	Qtr1	Deferred		0	0	0	0	0	0
SSDC	Key Control Audits	Car Parks	Qtr1	Complete	Reasonable	11	0	2	9	0	0
SSDC	Key Control Audits	Goldenstones	Qtr1	Complete	Reasonable	12	0	0	12	0	0
SSDC	Key Control Audits	Homelessness	Qtr1	Complete	Reasonable	17	0	0	13	4	0
SSDC	Operational Audits	Catering	Qtr1	Complete	Reasonable	11	0	0	11	0	0
SSDC	Operational Audits	Childcare Nursery	Qtr1	Complete	Reasonable	10	0	0	6	4	0
SSDC	Operational Audits	Choice Based Lettings	Qtr1	Created		0	0	0	0	0	0
SSDC	Operational Audits	Countryside & Rights of Way	Qtr1	Deferred		0	0	0	0	0	0
SSDC	Operational Audits	Tourism (TIC's)	Qtr1	Deferred		0	0	0	0	0	0
SSDC	Governance, Fraud & Corruption	Equalities and Diversity - Impact Assessments	Qtr2	Complete	Comprehensive	0	0	0	0	0	0
SSDC	Governance, Fraud & Corruption	Performance - NI 179 Efficiency Statements	Qtr2	Final	Comprehensive	0	0	0	0	0	0
SSDC	Governance, Fraud & Corruption	Performance - NI 188 Use of Natural Resources	Qtr2	Final	Comprehensive	0	0	0	0	0	0
SSDC	Governance, Fraud & Corruption	Risk Management (Risk Registers including Major Projects)	Qtr2	Deferred		0	0	0	0	0	0
SSDC	ICT - Security	Corporate back up routines	Qtr2	Draft	Reasonable	2	0	0	2	0	0
SSDC	Key Control Audits	Octagon Theatre - Production Company Contracts	Qtr2	Deferred		0	0	0	0	0	0
SSDC	Operational Audits	Asset Management Follow-Up	Qtr2	Discussion		0	0	0	0	0	0
SSDC	Operational Audits	Building Control	Qtr2	Draft	Reasonable	7	0	2	5	0	0
SSDC	Operational Audits	Octagon Theatre	Qtr2	Deferred		0	0	0	0	0	0
SSDC	Operational Audits	Section 106 & Commuted Sums Follow-Up	Qtr2	Deferred		0	0	0	0	0	0
SSDC	Operational Audits	VAT	Qtr2	Final	Reasonable	2	0	0	1	1	0

Client	Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	Major - Recommendations - Minor				
							5	4	3	2	1
SDDC	Governance, Fraud & Corruption	Fees and Charges	Qtr3	Deferred		0	0	0	0	0	0
SDDC	ICT - Security	Firewall Change Management	Qtr3	Created		0	0	0	0	0	0
SDDC	Key Control Audits	Licensing	Qtr3	Final	Reasonable	3	0	0	2	1	0
SDDC	Key Control Audits	Yeovil Recreation Centre	Qtr3	Created		0	0	0	0	0	0
SDDC	Managed Audits	Budgetary Control	Qtr3	Created		0	0	0	0	0	0
SDDC	Managed Audits	Capital Accounting	Qtr3	Created		0	0	0	0	0	0
SDDC	Managed Audits	Council Tax	Qtr3	In Progress		0	0	0	0	0	0
SDDC	Managed Audits	Creditors	Qtr3	In Progress		0	0	0	0	0	0
SDDC	Managed Audits	Debtors	Qtr3	In Progress		0	0	0	0	0	0
SDDC	Managed Audits	Housing Benefits	Qtr3	In Progress		0	0	0	0	0	0
SDDC	Managed Audits	Main Accounting	Qtr3	In Progress		0	0	0	0	0	0
SDDC	Managed Audits	NNDR	Qtr3	In Progress		0	0	0	0	0	0
SDDC	Managed Audits	Payroll	Qtr3	In Progress		0	0	0	0	0	0
SDDC	Managed Audits	Treasury Management	Qtr3	In Progress		0	0	0	0	0	0
SDDC	Operational Audits	Printing & Copying	Qtr3	Created		0	0	0	0	0	0
SDDC	Governance, Fraud & Corruption	Business Continuity - Major Partnerships & Contracts	Qtr4			0	0	0	0	0	0
SDDC	Governance, Fraud & Corruption	Gifts & Hospitality - Register of Interests (Members)	Qtr4	Created		0	0	0	0	0	0
SDDC	Governance, Fraud & Corruption	Gifts and Hospitality - Register of Interests (Officers)	Qtr4	Created		0	0	0	0	0	0
SDDC	Governance, Fraud & Corruption	Income Collection (Analytical Review including Budgets and Methods of Payment)	Qtr4			0	0	0	0	0	0
SDDC	Operational Audits	Care Line	Qtr4			0	0	0	0	0	0
SDDC	Operational Audits	Corporate Policy & Performance	Qtr4			0	0	0	0	0	0
SDDC	Operational Audits	Innovation Centre	Qtr4			0	0	0	0	0	0
SDDC	Operational Audits	Streetscene	Qtr4			0	0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

Comprehensive	▲ ★ ★ ★	I am able to offer comprehensive assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Audit Committee – 25th November 2010

6. Annual Audit Letter

Strategic Director: Mark Williams, Chief Executive
Lead Officer: As above
Contact Details: mwilliams@southsomerset.gov.uk or 01935 462101

Purpose of the Report

This report introduces the annual audit letter for the 2009/10 financial year.

Recommendations

The Audit Committee is asked to note the contents of the Audit Letter as set out in the report attached at pages 19-37.

Introduction

The review of the Annual Audit Letter is included within the remit of the Audit Committee under its terms of reference as follows:

“To consider the effectiveness of SSDC’s risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action has been taken”

“To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken”

“To review and approve the annual Statement of Accounts, external auditor’s opinion and reports to members and monitor management action in response to issues raised”

Each year the Audit Commission is required to make arrangements for the production of an audit letter for each local authority. This letter has changed in format for 2009/10. The letter outlines the following:

- A conclusion on the Statement of Accounts and annual governance statement;
- A conclusion on Value for Money;
- The fees charged by the Audit Commission compared to those budgeted.
- Current and Future Challenges
- Action Plan

The letter no longer carries a Use of Resources judgement or score as at the end of May 2010 the government announced that all work on the Comprehensive Area Assessment (CAA) would cease with immediate effect. However, the Audit Commission has used the results of the work carried out before the announcement to conclude its opinion on Value for Money. The letter outlines in paragraph 19 that “In 2009/10 the council strengthened its arrangements to build upon its already good scores from 2008/09. The Council has made progress against each of the agreed recommendations from the previous year”.

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The letter will be considered by both District Executive and Scrutiny Committee. A copy of the letter will also be sent to all members of the Council.

Statement of Accounts

An unqualified opinion was given on the Statement of Accounts and during the audit some amendments made by agreement. Although a weakness in internal controls was raised there are further controls in place for casual staff to ensure that there are no automatic payments made without a signed timesheet. The Audit Commission is also satisfied that the authority is well prepared for the introduction of IFRS (International Financial Reporting Standards) for next year's accounts. Local authorities will need to prepare full IFRS compliant financial statements under the new Code of Practice on Local Authority Accounting for 2010/11.

The Value for Money Conclusion

Various criteria were used to assess whether SSDC had adequate arrangements for Value for Money. These were assessed using the Use of Resources work that had already been carried out. The results were as follows:

Criteria	Adequate Arrangements?
Managing Finances: <ul style="list-style-type: none">• Planning for Financial Health• Understanding Costs and Achieving efficiencies• Financial Reporting	Yes Yes Yes
Governing the Business: Commissioning and Procurement <ul style="list-style-type: none">• Use of Information• Good Governance• Risk Management and Internal Control	Yes Yes Yes Yes
Managing Resources: <ul style="list-style-type: none">• Natural Resources	Yes

An unqualified conclusion was given on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Fees

The fees charged by the Audit Commission were in line with the budgeted fee structure given at £107,250. The authority continues to receive a discount on fees because of the low risk assessment received from the Audit Commission.

Current and Future Challenges

The letter outlines the challenges ahead given the reduction in government grant of 30% over the next few years. The letter next year will focus on financial resilience and our prioritisation of our resources.

It also outlines within the letter that SSDC's partnership with East Devon will need to review the compatibility of ICT systems as the partnership develops.

Action Plan

The Council has an Improvement and Development Plan that sets out specific areas that have been identified as needing further improvement. This can be as a result of customer feedback, service inspections, and the audit letter itself. As with last year's letter, it is senior management's intention to use the information contained within the annual letter to update the plan ensuring improvements are planned for, resourced and achieved.

Financial Implications

There are no financial implications in accepting this report and the associated recommendations.

Background Papers: *Annual Governance Report*

Annual Audit Letter

South Somerset District Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit has two parts:

- **the audit of your financial statements (pages 3 to 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on the financial statements on 23 September 2010.

Value for money

2 I issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Current and future challenges

3 The key challenge for the Council is to deliver significant cuts in spending, while protecting services to the public. Although the Council has a strong record of achieving its savings targets, the reductions in public expenditure from 2011/12 will be unprecedented.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 23 September 2010, well within the statutory target date.

Overall conclusion from the audit

4 The Council provided me with the draft statements in June and has made any subsequent amendments that I have requested except for one item. The Council had incorrectly offset revaluation gains on land against revaluation losses on buildings for some specialised operational properties. There was no impact on the Council's general fund balance. The Council did not have sufficient time to amend all the entries, totalling £540,000 at the end of the audit but it will correct these entries in 2010/11.

5 The Council produced a draft set of accounts well before the Audit Committee timetable in June. The finance team checked the quality of disclosures before adoption and prepared working papers of a high standard.

Accounting practice and financial reporting

6 Included in the Council's capital expenditure is £209,000 of salary costs relating to property services, finance and administration staff. The Council accepted my recommendation to strengthen the evidence to support the capitalisation of its salary costs in future years.

Weakness in internal control

7 Internal Audit found that there was a weakness in the controls over new staff. There was missing documentation for the appointment of new employees (Authority to Appoint forms) for some casual staff. Some managers may not be following the Council's procedures for casual staff but there is no automatic payment without an authorised timesheet.

8 The Council accepted my recommendation in the Annual Governance Report that it should ensure that all posts for new employees, including casual staff, are correctly authorised (Authority to Appoint forms). This will ensure that all payroll expenditure is genuine and that the manager has considered continuing budget commitments.

Senior Manager Severance

9 In 2009/10 the Council restructured its senior management team, and now shares its Chief Executive with East Devon District Council. It incurred significant redundancy costs in order to generate revenue savings in future years.

10 The Council had not included in the disclosure (Note 6) accruals for some pension costs that it subsequently paid in 2010/11. There was no impact on the income and expenditure account. The Council amended its disclosures. I included the details of the amendments in Appendix 2 of my Annual Governance Report.

International Financial Reporting Standards (IFRS)

11 Local authorities will need to prepare full IFRS-compliant financial statements under the new Code of Practice on Local Authority Accounting for 2010/11 (the Code of Practice) by 30 June 2011. In July 2010 I assessed the preparedness of South Somerset to produce IFRS accounts.

12 The Council is well prepared for the introduction of IFRS. I have agreed an action plan with the Council's finance team to further strengthen its arrangements:

- Present a revised project plan to the Audit Committee.
- Engage the District Valuer in the identification and valuation of significant components of its property, plant and equipment.
- Complete the work on calculating the short term employee benefits from the leave data.
- Consider whether there are any further entities or joint ventures to be included in the Group Accounts.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

13 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would cease with immediate effect. In addition, the Commission would no longer issue scores for its use of resources assessments.

14 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

15 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

16 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

17 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes

18 On 23 September I issued an unqualified conclusion stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

19 In 2009/10 the Council strengthened its arrangements to build upon its already good scores from 2008/09. The Council has made progress against each of the agreed recommendations from the previous year.

20 District councils were assessed for their use of natural resources for the first time in 2009/10. South Somerset has a highly effective approach to minimising the use of natural resources. The Council can demonstrate that it is reducing carbon emissions and its use of water, gas and electricity.

Managing finances

21 Through robust financial planning, the Council has established a strong financial base for delivering its corporate priorities. It consistently delivers expenditure within budget, maintains balances above target levels, and has agreed a medium term strategy for using part of its significant capital reserves to help deliver corporate priorities. It uses treasury management to support its financial objectives. The Council engages effectively with the local community in financial decision-making.

22 The Council has a well developed understanding of its costs across its services and uses this in its improvement planning. Benchmarking and comparative data is used widely to compare the costs of services. This provides the Council with an excellent understanding of where and how its money is spent. It applies this knowledge in decision making. The programme of lean reviews is delivering significant savings. The Council has a good understanding of the value of its assets and has processes in place to manage these effectively.

23 Internal financial reporting is timely, understandable and supports effective management action. The financial reporting systems are flexible and accessible. Performance reports to members have financial and performance information, with commentary on the reasons for budgets or performance being off-course. The Council has strong processes in place for preparing and approving the statement of accounts.

Governing the business

24 The Council has a clear and robust approach to procurement, with well-developed rules supported by examples of good practice, building on the Council's good understanding of its costs. The Council uses service redesign to achieve greater efficiencies. The Council uses its extensive data on its costs to inform areas for review and potential change, including out-sourcing.

25 The Council has provided the data for the National Fraud Initiative, a national data matching exercise to identify potential fraud in the public sector. The Council began to review some of the data matches for single persons' discount for council tax and identified 3 out of 100 matches that were no longer valid.

26 It has recently commissioned a company called Experian to use its database to identify properties where these discounts need to be followed up. South Somerset has been advertising this exercise widely in local newspapers so that its residents can inform the Council of any change in circumstances. The Council should update the Audit Committee on progress against the timetable and the results of this Experian exercise when it is concluded.

27 The Council has well developed processes in place for managing information. A data quality policy clearly allocates responsibility for data at the highest management and political levels. There is clear guidance for staff which defines minimum requirements for data checking. The Council has a data sharing protocol. Decision makers receive relevant and comprehensive financial and performance data. There are business continuity plans for each service area, with regular testing. There are effective, industry standard policies in place for security and ICT compliance.

28 The Council has a clear vision of what it wants to achieve for local communities. The Corporate Plan sets out actions to deliver this vision over the medium term. The Council has good arrangements for policing standards of conduct, but knows it need to develop a more proactive role. The Council ensures value for money from its partnership working and grants to voluntary bodies.

29 Risk management is embedded in financial and service planning, policy development and partnership working. The Council has good anti-fraud procedures, although it invests fewer resources in its benefit fraud team than many other councils. The Council has a sound internal control environment supported by effective internal audit and a challenging Audit Committee.

Recommendation

R1 The Council should investigate and resolve data matches (Experian) on single persons' discounts for council tax. The Council should report progress to the Audit Committee.

Managing resources (natural resources)

30 The Council has a highly effective approach to minimising its use of natural resources. It understands which business activities contribute most to its environmental footprint and has targeted action accordingly. The Council is on track to meet the challenging target to reduce its carbon emissions by 12 per cent over the next two years. It can demonstrate significant reductions in water, gas and electricity use.

31 The Council recycles a significant and a growing proportion of its business waste. The Council works innovatively, exploring new technologies for example replacing heating systems with boilers using locally sourced woodchip. It also uses low emission fleet and pool vehicles.

32 The Council's procurement process considers environmental impact. The Council gives preference to goods and services that can be manufactured, used and disposed of in an environmentally and socially responsible way. The Council works well with partners to reduce their environmental impact. It shares accommodation with partners which meets sustainability objectives as well as more effective joined up working.

Approach to local value for money work from 2010/11

33 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

34 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

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

35 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Spending reductions

36 On 20 October 2010 the Government announced its Comprehensive Spending Review (CSR). This includes a reduction in funding for local government of 7.1 per cent a year from 2011/12 for the next 4 years.

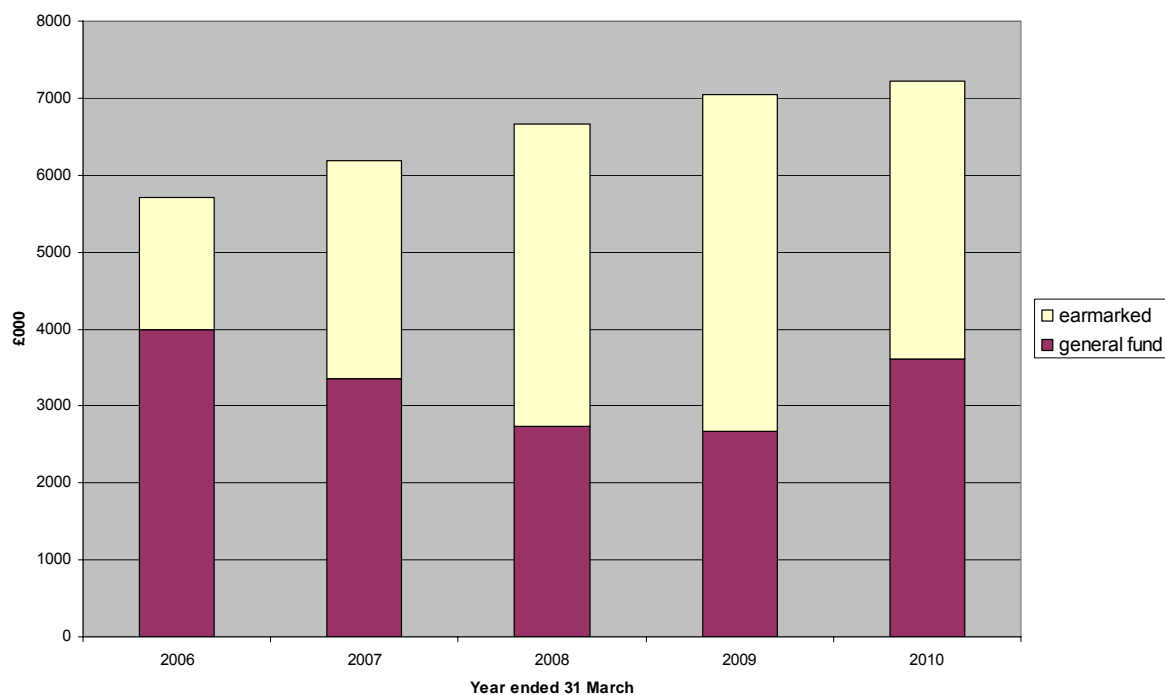
37 The Council does not yet know the details of what it is going to receive. However, the reductions in public spending will require the Council to find significant savings, especially as the greatest reductions are to be made in the first years of the CSR period.

38 I have commented in previous audit letters that the Council has had robust financial planning and has successfully delivered expenditure within budget. In 2009/10 the Council achieved an underspend of £931,000 against its original budget, mainly due to a VAT reimbursement of £563,000 and receipt of subsidy from prior years of £261,000.

39 The Council has maintained its revenue balances and reserves which will help the Council finance management restructuring and service realignment. It estimates that it has £1.5m in addition to the minimum balances that it needs to preserve.

Figure 1: **South Somerset - general fund balances and reserves**

South Somerset has maintained its balances to meet future challenges



Source: Audited accounts

40 For 2010/11 the Council is reporting that by October it has already delivered £1.2m of its annual £1.8m savings target for 2010/11. However, the scale of the savings from 2011/12 will be unprecedented.

41 The Council is already revising its financial forecasts within a range of expected possibilities and it had already anticipated a reduction in Revenue Support Grant of 30 per cent over the four year period.

Partnership with East Devon

42 From March 2010, South Somerset has shared its Chief Executive with East Devon. There are plans to share future management costs between the two councils to generate further savings. However, the Council has decided to concentrate its efforts on generating savings from service reviews or 'lean' thinking before combining management structures. In addition, both councils are seeking efficiencies in the provision of services and reviewing the compatibility of IT systems. Both councils should also have regard to IT compatibility with other neighbouring local authorities, in the event that partnership arrangements could be extended.

Recommendation

R2 When the Council starts to work with East Devon on sharing services it should identify efficiencies through the integration of IT systems. In the development of IT procurement both councils should consider the potential to extend partnership arrangements to other neighbouring local authorities.

Closing remarks

43 I have discussed and agree this letter with the Chief Executive and the Assistant Director (Finance and Corporate Services). I will present this letter at the Audit Committee on 25 November 2010 and will provide copies to all Committee members.

44 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Planning Letter	March 2009
Audit Opinion Plan	March 2010
Annual Governance Report	September 2010

45 The Council has taken a positive and helpful approach to our audit. I wish to thank the Assistant Director (Finance and Corporate Services) and her team for their support and cooperation during the audit.

Brian Bethell
District Auditor

November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement,	£73,252	£73,252	0
Value for money	£31,982	£31,982	0
Whole of Government Accounts	£2,016	£2,016	0
Total audit fees	£107,250	£107,250	0
Non-audit work	0	0	0
Total	£107,250	£107,250	0

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled. It looks at how they engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code. It includes how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 3 - Action Plan

Recommendations

Recommendation 1

The Council should investigate and resolve data matches (Experian) on single persons' discounts for council tax. The Council should report progress to the Audit Committee.

Responsibility	Assistant Director (Finance and Corporate Services)
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Priority	Medium
-----------------	--------

Date	March 2011
-------------	------------

Comments

Recommendation 2

When the Council starts to work with East Devon on sharing services it should identify efficiencies through the integration of IT systems. In the development of IT procurement both councils should consider the potential to extend partnership arrangements to other neighbouring local authorities.

Responsibility	Chief Executive
-----------------------	-----------------

Priority	Low
-----------------	-----

Date	Ongoing
-------------	---------

Comments	The recommendation is agreed in the spirit in which it was intended that the Council is aware of future potential partnerships and the IT systems used by others. It is not a mechanism to introduce any restriction on the Council's procurement of future IT systems.
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7. Treasury Management Performance to September 2010

Strategic Director: Mark Williams, Chief Executive
Assistant Director: Donna Parham (Finance and Corporate Services)
Service Manager: Amanda Card, Finance Manager
Lead Officer: Karen Gubbins, Principal Accountant - Exchequer
Contact Details: karen.gubbins@southsomerset.gov.uk or 01935 462456

Purpose of the Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the six months ended 30th September 2010.

Recommendations

2. The Audit Committee are asked to:
 - note the Treasury Management Activity for the six-month period ended 30th September 2010;
 - note the position of the individual prudential indicators for the six-month period ended 30th September 2010;
 - increase the group limit for Bank of Scotland/Lloyds banking group (see paragraph (8)).

Summary of Investment Strategy for 2010/11

3. The Council's strategy for investments is based upon minimising risk and safeguarding the capital sum. There is a reliance on the investment income receivable in maintaining a balanced revenue budget and therefore the long-term strategy is to maintain stability by having a significant amount invested in fixed rate of return investment instruments.
4. Our minimum rating is A+ long term (or equivalent). Following the guidance from our advisors, Arlingclose, we are keeping investments to a rolling programme of 12 months where cash flow permits.
5. The sum invested in longer dated securities at fixed rates of interest at the end of September represented 29% of the total portfolio. The sum invested in longer dated securities at variable rates of interest at the end of September represented 14% of the total portfolio. Investments made in longer dated securities comprise EuroSterling bonds and a Corporate bond; these investments have all been made following advice from our treasury advisers.
6. The Treasury Management Strategy Statement and Annual Investment Policy were both approved by Council on 18th March 2010. The strategy identified that the overall investment portfolio should, subject to current economic conditions, include investments in the following ranges:-

	%
Fund Managers and pooled managed funds.	0% - 25%
Term deposits (up to 2 years).	0% - 75%
3 – 5 year cash deposits.	0% - 25%
1 – 5 year callable deposits.	0% - 15%
1 – 5 year EuroSterling/Corporate Bonds.	10% - 75%

7. The table below compares the investment portfolio at 30th September 2010 to the investment strategy:-

	£'m	%	Strategic aim
Pooled Managed Funds and business reserve accounts	2.48	5.60	0% - 25%
Term deposits (up to 2 year)	23.00	51.94	0% - 75%
3 – 5 year cash deposits.	0	0	0% - 25%
1 – 5 year callable deposits.	0	0	0% - 15%
1 – 5 year EuroSterling/Corporate Bonds.	18.80	42.46	10% - 75%
	44.28	100.00	

The above table shows that the current portfolio broadly reflects the strategy.

Amendment to Investment Strategy

8. The maximum limit for investments with the Lloyds Banking Group/Bank of Scotland is currently set at £6,002,000. This is in line with all the other banking groups. Our Treasury Advisors, Arlingclose, are comfortable with us increasing the group limit to £9,002,000 but maintaining a £6,000,000 individual limit for each of the 2 banks (plus any outstanding interest for Bank of Scotland). This will enable us to take advantage of higher interest rates for investing for longer periods rather than using our short term money market funds. Lloyds and Bank of Scotland are currently offering 1.08% for 3 months. The money market funds are returning on average 0.63% (28/10/2010).
9. Arlingclose support this group increase by saying: 'The Lloyds Banking Group is 40% owned by the UK government. There has been some stabilisation in credit conditions in general. The long-term ratings of the Lloyds TSB Bank and Bank of Scotland have at least an A+ long-term rating across all three agencies. Other creditworthiness factors such as the share price of Lloyds Banking Group (there is no share price for the individual banks) and credit default swaps of the two banks do not give cause for concern'.

Interest Rates 2010/11

10. Base rate began the financial year and remains at 0.5%.
11. Our advisors are forecasting that rates will continue at 0.5% during the remainder of this financial year with a likelihood of increasing by 0.25% in September 2011.

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Official Bank Rate										
Upside risk	-	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75
Downside risk	-	-	-	0.25	0.50	0.50	0.50	0.50	0.50	0.50

Investment Portfolio

12. The total amount of investments has increased since 1st April due to the fact we are now six months into the ten month council tax collection cycle.
13. The table below shows the Council's overall investments as at 30th September 2010:

	Value of Investments at 01.04.10 £	Value of Investments at 30.09.10 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
Euro Sterling Bonds	9,850,072	7,561,574	Fixed
Corporate Bonds	5,336,559	5,243,425	Fixed
Euro Sterling Bonds	<u>2,000,630</u>	<u>6,000,000</u>	Variable
Total	17,187,261	18,804,999	
Internal Investments			
Short Term Deposits	19,000,000	23,000,000	Variable
Money Market Funds & Business Reserve Accounts	<u>2,960,000</u>	<u>2,480,000</u>	Variable
Total	21,960,000	25,480,000	
TOTAL INVESTMENTS	<u>39,147,261</u>	<u>44,284,999</u>	

Returns for 2010/11

14. The returns to 30th September 2010 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
Euro Sterling Bonds (Fixed)	242	
Corporate Bonds	117	
Euro Sterling Bonds (Variable)	<u>22</u>	
Total	381	3.95%
Internal Investments		
Short Term Deposits	161	
Money Market Funds & Business Reserve Accounts	<u>25</u>	
Total	186	1.30%
Other Interest		
Miscellaneous Loans	<u>73</u>	
Total	73	
TOTAL	<u>640</u>	
PROFILED BUDGETED INCOME	<u>674</u>	
SHORTFALL	34	
BENCHMARK RATE OF RETURN		0.42%

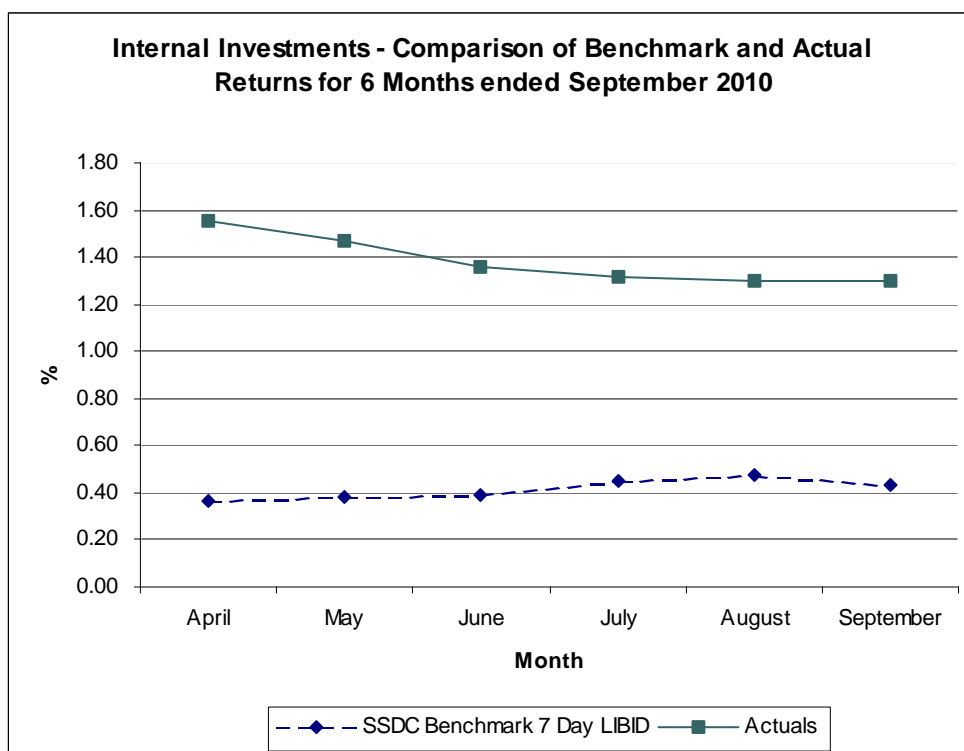
15. The table above shows investment income for the first six months of the year compared to the profiled budget. The figures show a shortfall under budget of £34,000. We currently estimate that the position at the end of the financial year will be an adverse variance in the order of £46,000.

16. The outturn position is affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of capital expenditure and council tax and business rate collection.

17. The original Treasury Management budget of £1,347,620 was derived by forecasting an average rate of return of 2.74%. The actual interest rate received for the first half of the year was 2.30%.

Internal Investments (Short Term)

18. The graph below shows the In-house performance in respect of short-term investments as at 30th September 2010.



19. The current benchmark set for the in house team is the 7-day LIBID (London Interbank Bid) rate which is the rate used for quick benchmarking by the CIPFA benchmarking club.

20. The above graph shows that the internal investments returns are consistently outperforming the benchmark by around 80 basis points. This is due to a large amount of our investment portfolio being in longer dated securities such as Eurobonds and Corporate Bonds as well as maintaining a rolling programme of 12 month term deposits where cash flow permits.

Borrowing

21. An actual overall borrowing requirement (CFR) of £9.2 million was identified at the beginning of 2010/11. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 30th September 2010, the Council had no external borrowing.

Prudential Indicators – Quarter 1 monitoring**Background:**

22. In March 2010, Full Council approved the indicators for 2010/11, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allows local authorities to determine their own borrowing limits provided they are affordable and that every local authority complies with the code.

Prudential Indicator 1 - Capital Expenditure:

23. The revised estimates of capital expenditure to be incurred for the current year compared to the original estimates are:

	2010/11 Original Estimate £'000	Expected outturn £'000	2010/11 Variance £'000	Reason for Variance
Approved capital schemes	9,301	10,324	1,023	Increase arises from net slippage to later years and new schemes agreed by Full Council in February 2010 as part of the annual process merged into programme
Reserves	1,111	2,697	1,586	Slippage from 2009/10 accounts for the majority of the variance as well as an increase in the amount of money allocated to the affordable housing scheme
Total Expenditure	10,412	13,021	2,609	

24. The above table shows that the overall estimate for capital expenditure has increased.

Prudential Indicator 2 - Ratio of Financing Costs to Net Revenue Stream:

25. A comparison needs to be made between financing capital costs and the revenue income stream to support these costs. This shows how much of the revenue budget is committed to the servicing of finance.

Portfolio	2010/11 Revised Estimate £'000	Expected outturn £'000	2010/11 Variance £'000	Reason for Variance
Financing Costs	(1,348)	(1,302)	46	Interest rates forecast to stay lower for longer than originally anticipated

Portfolio	2010/11 Revised Estimate £'000	Expected outturn £'000	2010/11 Variance £'000	Reason for Variance
Net Revenue Stream	20,310	20,673	363	The budget has increased due to the approval of the carry forwards from 2009/10
%*	6.6	6.3		

26. The financing costs include interest payable, notional amounts set aside to repay debt and revenue contributions to capital less interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for SSDC but is nevertheless relevant since it shows the extent to which the Council is dependent on investment income.

Prudential Indicator 3 - Capital Financing Requirement:

27. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. Estimates of the year-end capital financing requirement for the authority are:

	2010/11 Original Estimate £'000	Expected outturn £'000	2010/11 Variance £'000	Reason for Variance
Opening CFR	9,157	9,157	0	
Capital Expenditure	10,412	13,021	2,808	See explanations for indicator 1 above
Capital Receipts*	(8,227)	(8,714)	671	Slippage of schemes approved in previous years
Grants/Contributions*	(2,185)	(4,307)	2,137	Reprofiling of income expected in future years.
Minimum Revenue Position (MRP)	(36)	(36)	0	
Closing CFR	9,121	9,121	0	

*Figures in brackets denote income through receipts or reserves.

Prudential Indicator 4 – Net external Borrowing compared to the medium term Capital Financing Requirement:

28. The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the net external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period.

	2010/11 Original Estimate £'000	2010/11 Qtr 2 Actual £'000	2010/11 Variance £'000	Reason for Variance
Net Borrowing	(34,802)	(42,738)	7,936	Capital receipts totalling £422.5k have been received but not yet spent and we are six months into the ten month Council Tax collection cycle
CFR	9,121	9,121	0	See explanations for indicator 3 above

29. The figures above in brackets described as net borrowing actually represent net investments. Our net borrowing is forecast to remain as net investment for the foreseeable future and therefore will not at any time be in excess of the capital financing requirement.

Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

30. The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. For this purpose, term deposits of less than 365 days are deemed to be variable rate deposits. Fixed rate deposits are investments in Eurobonds, Corporate Bonds and term deposits exceeding 365 days.

	2010/11 % Limit	2010/11 Qtr 2 Actual %	2010/11 Variance %	Reason for Variance
Fixed	80	29	51	Within limit
Variable	100	71	29	Within limit

31. The Council must also set limits to reflect any borrowing we may undertake.

	2010/11 % Limit	2010/11 Qtr 2 Actual %	2010/11 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

32. The indicator has been set at 100% to maximise opportunities for future debt as they arise.

Prudential Indicator 6 - Upper Limit for total principal sums invested over 364 days:

33. SSDC must also set upper limits for any investments of longer than 364 days. The purpose of this indicator is to ensure that SSDC, at any time, has sufficient liquidity to meet all of its financial commitments.

Upper Limit for total principal sums invested over 364 days	2010/11 Maximum Limit £'000	2010/11 Qtr 2 Actual £'000	2010/11 Expected Outturn £'000	Reason for Variance
Between 1-2 years	25,000	10,597	3,209	Within limit
Between 2-3 years	20,000	1,071	6,000	Within limit
Between 3-4 years	10,000	7,136	1,136	Within limit
Between 4-5 years	10,000			Within limit
Over 5 years	5,000			Within limit

34. The table above shows that the Council adopts a policy of safeguarding its investments by minimising investments that are redeemable more than five years ahead.

Prudential Indicator 7 - Actual External Debt:

35. This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (**this represents our finance leases as per the Statement of Recommended Practice**). This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2010	£'000
Borrowing	0
Other Long-term Liabilities	44
Total	44

Prudential Indicator 8 - Authorised Limit for External Debt:

36. This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A ceiling of £12 million was set for each year.

	2010/11 Estimate £'000	2010/11 Qtr 2 Actual £'000	2010/11 Variance £'000	Reason for Variance
Borrowing	11,900	0	(11,900)	SSDC currently has no borrowing
Other Long-term Liabilities	100	44	(56)	Within limit
Total	12,000	44	(11,956)	

AC

Prudential Indicator 9 – Operational Boundary for External Debt:

37. The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt. A ceiling of £10 million for each of the next three years was set.

	2010/11 Estimate £'000	2010/11 Qtr 2 Actual £'000	2010/11 Variance £'000	Reason for Variance
Borrowing	9,900	0	(9,900)	SSDC currently has no borrowing
Other Long-term Liabilities	100	44	(56)	Within limit
Total	10,000	44	(9,956)	

Prudential Indicator 10 - Maturity Structure of Fixed Rate borrowing:

38. This indicator is relevant when we borrow, then we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

Maturity structure of fixed rate borrowing	2010/11 Upper Limit %	2010/11 Lower Limit %	2010/11 Qtr 2 Actual %	2010/11 Variance %	Reason for Variance
Under 12 months	100	0	0	Not applicable	
12 months and within 24 months	100	0	0	Not applicable	
24 months and within 5 years	100	0	0	Not applicable	
5 years and within 10 years	100	0	0	Not applicable	
10 years and within 20 years	100	0	0	Not applicable	
20 years and within 30 years	100	0	0	Not applicable	
30 years and within 40 years	100	0	0	Not applicable	
40 years and within 50 years	100	0	0	Not applicable	
50 years and above	100	0	0	Not applicable	

Prudential Indicator 11 - Incremental Impact of Capital Investment Decisions:

39. SSDC must show the effect of its annual capital decisions for new capital schemes on the council taxpayer. Capital spend at SSDC is financed from additional receipts so the figure below actually shows the possible decreases in council tax if all capital receipts were invested rather than used for capital expenditure.

Incremental Impact of Capital Investment Decisions	2010/11 Original Estimate £
Decrease in Band D Council Tax	0.20

Prudential Indicator 12 - Adoption of the CIPFA Treasury Management Code:

40. This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18th April 2002.
--

Conclusion

41. The council is currently within all of the Prudential Indicators and is not forecast to exceed them.

Background Papers: *Prudential Indicators Working Paper, Treasury Management Strategy Statement*

AC

Audit Committee – 25th November 2010

8. **Date of Next Meeting**

The next meeting of the Audit Committee is scheduled to take place on Thursday, 23rd December 2010. After consultation with the Chairman, however, it is suggested that the meeting be cancelled bearing in mind its closeness to Christmas and that there is no urgent business to require the meeting to be held.

Members are, therefore, asked to endorse the cancellation of the December meeting of the Committee.

On that basis the next scheduled meeting of the Audit Committee will be held on Thursday, 27th January 2011 at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.
