

South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 25th August 2011

10.00 a.m.

**Council Chamber B,
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

This Agenda was issued on Wednesday, 17th August 2011

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

This information is also available on our
website: www.southsomerset.gov.uk



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Audit Committee Membership

Chairman Derek Yeomans
Vice-Chairman Ian Martin

John Calvert Roy Mills
John Dyke John Richardson
Marcus Fysh Colin Winder
Tony Lock

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:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. 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;
 10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
 11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
 12. To receive reports from management on the promotion of good corporate governance;
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Financial Management and Accounts

13. 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;
14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Assistant Director – Finance and Corporate Services (S151 Officer), the Assistant Director – Legal and Corporate Services (the Monitoring Officer), or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Meetings of the Audit Committee are held monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently.

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 August 2011

Agenda

Preliminary Items

1. To approve as a correct record the Minutes of the previous meeting held on 28th July 2011
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

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Items for Discussion

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Audit Committee – 25th August 2011

5. 2011/12 Internal Audit Quarterly Update Report

Head of Service: Gerry Cox, Head of Internal Audit Partnership
Lead Officer: Ian Baker, Group Audit Manager
Contact Details: ian.baker@southwestaudit.gov.uk or 01935 462379

Purpose of the Report

This report has been prepared for the Audit Committee to review the progress made on the 2011-12 Annual Internal Audit Plan.

Recommendation

To note the progress made.

Background

The Audit Committee agreed the 2011/12 Internal Audit Plan at its February meeting and the report attached provides the latest position for quarter one.

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: None



South Somerset District Council

Report of Internal Audit Activity
Quarter 1 Update - April 2011 to date

The contacts at SWAP in connection with this report are:

Gerry Cox

Head of Internal Audit Partnership
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gerry.cox@southwestaudit.gov.uk

Ian Baker

Group Audit Manager
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Summary of Internal Audit Activity:

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Conclusions	Page 4

APPENDICES:

Audit Plan Progress 2011/12	Appendix A
Audit Framework Definitions	Appendix B
Service Priority Actions	None

Our Audit Activity is split between:

- Operational Audit
- Key Control Audit
- Governance Audit
- IT Audit
- Other Reviews

Role of Internal Audit

The Internal Audit service for South Somerset District Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors. The Partnership is also guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the Unit includes:

- Operational Audit Reviews
- Cross Cutting Fraud and Governance Reviews
- Annual Review of Key Financial System Controls
- IT Audit Review
- Other special or unplanned reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Plan. Following consultation with Senior Management and External Audit, the plan for 2011/12 was reviewed and agreed by the Audit Committee at its meeting on 24th February 2011.

A summary of Internal Audit Activity for 2010/11 was presented to the Committee in June of this year. I am pleased to report that all outstanding reports have been completed with only one report still at draft stage; Printing and Copying. Early indication is that this is the only outstanding report that may receive a Partial Assurance level and should that be the case I will update the Committee with the details next time.

The Audit Charter requires Internal Audit to provide the Audit Committee with regular updates on audit activity against the plan. The purpose of this report is to update the Committee on progress for Quarter 1 from April 2011 to date. Members are asked to comment on and note the content of this report.

Quarter 1 Outturn:

We provide an assurance opinion and rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concerns requiring expedient corrective action by the Service.

We also assess the Service Risk exposure at a Corporate level.

Internal Audit Work Programme

The schedule provided at [Appendix A](#) contains a list of all audits as agreed in the 2011/12 Annual Audit Plan. It is important that Members are aware of the status of all audits and this information helps them to place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective 'assurance opinion' rating together with the number of recommendations that have been raised with management. The 'assurance opinion. Rating have been determined in accordance with the Internal Audit 'Audit Framework Definitions' as shown in [Appendix B](#).

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 degree of risk to the Authority's operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. Irrespective of the 'assurance opinion' I shall also provide a schedule of all level 4 or 5 priority actions for the Committee's information. To date none of the completed audits have actions at these levels.

I am pleased to report that none of the assignments completed to date have been awarded a 'Partial Assurance'. Where this should be the case, I will provide the Committee with further detail of the reasons for this assessment.

Should an audit review identify a significant corporate risk, either 'High' or 'Very High', as described in Appendix B, I will also bring these to the attention of the Audit Committee. Again I can report that there have been no such risks identified in any of the completed reviews. On occasion there will be risks assessed as 'High' but this will be very much as a result of the nature of the activity i.e. High Impact but Low Probability; I will not report these.

Quarter 1 Outturn:

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

The audit plan for 2011/12 is detailed in Appendix A. Should there be any changes to the plan, this will be agreed with the Council's Section 151 Officer and reported to the Audit Committee.

Conclusions

As can be seen, good progress has been made against the plan to date. Those audits currently completed have not identified any serious risk to the Council and there have been no level 4 or 5 priority actions.

APPENDIX A

Client	Directorate/Service	Audit Area	Quarter	Status	Opinion	No. of recs	Major - Recommendations - Minor				
							5	4	3	2	1
SSDC	Service Reviews	Licensing	Qtr 1	Complete	Reasonable	2	0	0	2	0	0
SSDC	Service Reviews	Pest Control	Qtr 1	Complete	Reasonable	4	0	0	2	2	0
SSDC	Service Reviews	Homelessness	Qtr 1	Completed	Reasonable	6	0	0	5	1	0
SSDC	Core Cross-Cutting Services	Register of Interests - Members	Qtr 1	Draft		3	0	2	1	0	0
SSDC	Core Cross-Cutting Services	Scheme of Delegation	Qtr 1	In Progress		1	0	0	0	0	1
SSDC	Service Reviews	Streetscene - Enforcement	Qtr 1	Completed	Reasonable	5	0	0	3	2	0
SSDC	Service Reviews	Streetscene - Workshops	Qtr 1	Completed	Reasonable	8	0	0	7	1	0
SSDC	Core Cross-Cutting Services	Maximising Income	Qtr 1	Created		0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Annual Governance Statement	Qtr 1	Draft		2	0	0	2	0	0
SSDC	Core Cross-Cutting Services	Threat from Fraud & Corruption	Qtr 1	Draft		7	0	0	5	2	0
SSDC	Core Cross-Cutting Services	Partnership Arrangements	Qtr 1	In Progress		5	0	0	4	0	0
SSDC	Service Reviews	Wessex Reinvestment Trust	Qtr 1	Complete	Non Opinion	0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Contract Management	Qtr 2	In Progress		0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Information Governance	Qtr 2	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Legal Services	Qtr 2	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Housing Benefit Fraud	Qtr 2	In Progress		3	0	1	1	1	0
SSDC	Service Reviews	Wincanton Sports Centre	Qtr 2	Discussion		0	0	0	0	0	0
SSDC	ICT	Information Security Regulatory Compliance	Qtr 2	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	ACI Site & Chard Regeneration Scheme Statement of Accounts	Qtr 2	Created		0	0	0	0	0	0
SSDC	Service Reviews	Workplace Nursery	Qtr 2	In Progress		0	0	0	0	0	0
SSDC	Service Reviews	Yeovil Recreation Centre	Qtr 2	Created		0	0	0	0	0	0
SSDC	Service Reviews	Yeovil Town Centre Partnership Bank Account	Qtr 2	Created	Non Opinion	0	0	0	0	0	0
SSDC	Service Reviews	Yeovil Cemetary & Crematorium Annual Return	Qtr 2	Complete	Non Opinion	0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Capital Accounting	Qtr 3			0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Creditors	Qtr 3			0	0	0	0	0	0

SSDC	Core Cross-Cutting Services	Debtors	Qtr 3			0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Main Accounting	Qtr 3			0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Managing Complaints	Qtr 3			0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Payroll	Qtr 3			0	0	0	0	0	0
SSDC	Service Reviews	Council Tax	Qtr 3			0	0	0	0	0	0
SSDC	Service Reviews	Housing & Council Tax Benefits	Qtr 3			0	0	0	0	0	0
SSDC	Service Reviews	NNDR	Qtr 3			0	0	0	0	0	0
SSDC	Service Reviews	Play & Youth Facilities	Qtr 3			0	0	0	0	0	0
SSDC	Service Reviews	Treasury Management	Qtr 3			0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Fees and Charges	Qtr 4			0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Health and Safety	Qtr 4			0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	Managing with Reduced Resources	Qtr 4			0	0	0	0	0	0
SSDC	Core Cross-Cutting Services	MTFP Process	Qtr 4			0	0	0	0	0	0
SSDC	ICT	ICT Service Management & Governance	Qtr 4			0	0	0	0	0	0
SSDC	Service Reviews	Car Loans	Qtr 4			0	0	0	0	0	0
SSDC	Service Reviews	Car Parks	Qtr 4			0	0	0	0	0	0
SSDC	Service Reviews	Care Line	Qtr 4			0	0	0	0	0	0
SSDC	Service Reviews	Goldenstones	Qtr 4			0	0	0	0	0	0
SSDC	Service Reviews	Octagon Theatre	Qtr 4			0	0	0	0	0	0
SSDC	Service Reviews	Property Services	Qtr 4			0	0	0	0	0	0
SSDC	Service Reviews	Section 106 & Commuted Sums	Qtr 4			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 August 2011

6. Treasury Management Performance to June 2011

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 three months ended 30th June 2011.

Recommendations

2. The Audit Committee are asked to:
 - Note the Treasury Management Activity for the three-month period ended 30th June 2011.
 - Note the position of the individual prudential indicators for the three-month period ended 30th June 2011.
 - Note the amendment in allocation of monies through grants and contributions and capital receipts.

The Investment Strategy for 2011/12

3. The Treasury Management Strategy for 2011/12 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
4. The Code of Practice recommends that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
5. 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.
6. Our Minimum rating is A+ long term (or equivalent). Following the guidance from our advisors we are keeping investments to a rolling programme of 12 months where cash flow permits.
7. Following the growing problems facing peripheral Europe, the Council brought down the maturity limit for new investments with non-UK banks from 2 years to a maximum of 1 year on 23rd May 2011. Similarly, following the growing problems facing Greece and the Eurozone, the Council decided to restrict new investments with approved UK institutions (except for Santander UK plc and Clydesdale) to 1 year since 23rd June 2011. New deposits with Santander UK plc remain

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restricted to 6 months, and new deposits with Clydesdale Bank are restricted to 1 week.

8. The sum invested in longer dated securities at fixed rates of interest at the end of June represented 28% of the total portfolio. The sum invested in longer dated securities at variable rates of interest at the end of June represented 14% of the total portfolio. Investments made in longer dated securities comprise EuroSterling bonds and Corporate bonds; these investments have all been made after advice from our treasury advisors, Arlingclose.
9. The Treasury Management Strategy Statement and Annual Investment Policy were both approved by Council on 17th March 2011. 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%

10. The table below compares the investment portfolio at 30th June 2011 to the investment strategy:-

	£'m	%	Strategic aim
Pooled Managed Funds and business reserve accounts	7.71	17.4	0% - 25%
Term deposits (up to 2 year)	18.00	40.8	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.	18.44	41.8	10% - 75%
	44.15	100	

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

Interest Rates 2010/11

11. Base rate began the financial year and remains at 0.5%.
12. Our advisors are forecasting that rates have a likelihood of increasing by 0.25% in June 2012.

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Official Bank Rate													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	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	1.75	2.00	2.25	2.50	2.75	3.00
Downside risk				-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Investment Portfolio

13. The total amount of investments has increased since 1st April as the capital receipt from Right to Buy income has been received, but not yet spent, and we are now three months into the ten month council tax collection cycle.

14. The table below shows the Council's overall investments as at 30th June 2011:

	Value of Investments at 01.04.11 £	Value of Investments at 30.06.11 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
Euro Sterling Bonds	7,537,881	7,339,484	Fixed
Corporate Bonds	5,194,979	5,101,845	Fixed
Euro Sterling Bonds	6,000,000	6,000,000	Variable
Total	18,732,860	18,441,329	
Internal Investments			
Short Term Deposits	16,000,000	18,000,000	Variable
Money Market Funds & Business Reserve Accounts	4,000,000	7,710,000	Variable
Total	20,000,000	25,710,000	
TOTAL INVESTMENTS	38,732,860	44,151,329	

Returns for 2011/12

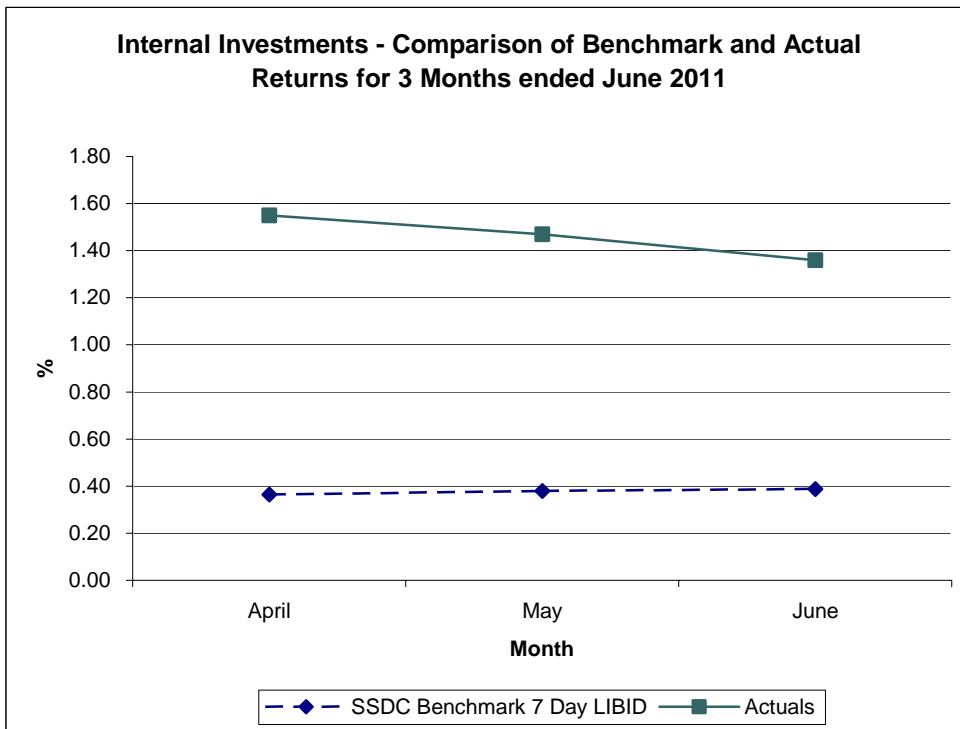
15. The returns to 30th June 2011 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
Euro Sterling Bonds (Fixed)	96	
Corporate Bonds	58	
Euro Sterling Bonds (Variable)	12	
Total	166	3.61%
Internal Investments		
Short Term Deposits	66	
Money Market Funds & Business Reserve Accounts	10	
Total	76	1.24%
Other Interest		
Miscellaneous Loans	46	
Total	46	
TOTAL INCOME TO 30TH JUNE 2011	288	2.21%
PROFILED BUDGETED INCOME	200	
FORECAST SURPLUS FOR YEAR END	34	
BENCHMARK RATE OF RETURN		0.40%

- 16. The table above shows investment income for the first three months of the year compared to the profiled budget. The figures show a surplus over budget of £88,000. We currently estimate that the position at the end of the financial year will be an overall favourable variance in the order of £34,000.
- 17. 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.
- 18. The original Treasury Management budget of £799,620 was derived by forecasting an average rate of return of 1.78%. The actual interest rate received for quarter 1 was 2.19%.

Internal Investments (Short Term)

- 19. The graph below shows the In-house performance in respect of short-term investments as at 30th June 2011.



- 20. 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.
- 21. The above graph shows that the internal investments returns are consistently outperforming the benchmark by around 100 basis points. This is due to a large amount of our investment portfolio being in longer dated securities such as Eurobonds, Corporate Bonds and also in maintaining a rolling programme of 12 month term deposits where cash flow permits.

Borrowing

22. An actual overall borrowing requirement (CFR) of £9.4 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 June 2011 the Council had no external borrowing.

Breakdown of investments as at 30th June 2011

Date Lent	Counterparty	Amount	Rate	Maturity Date
10-Jan-11	Bank of Scotland	2,000,000	1.95%	10-Jan-12
14-Oct-10	Bank of Scotland	2,000,000	1.85%	14-Oct-11
1-Mar-11	Bank of Scotland	1,000,000	2.05%	1-Mar-12
14-Apr-11	Nationwide Building Society	1,000,000	1.44%	13-Apr-11
7-Jun-11	Nationwide Building Society	1,000,000	1.41%	6-Jun-12
6-Aug-10	Nationwide Building Society	1,000,000	1.36%	5-Aug-11
25-Aug-10	Barclays Bank Plc	1,000,000	1.47%	25-Aug-11
1-Sep-10	Barclays Bank Plc	1,000,000	1.47%	1-Sep-11
27-May-11	Nationwide Building Society	1,000,000	0.84%	30-Sep-11
4-Nov-10	Barclays Bank Plc	1,000,000	1.45%	4-Nov-11
17-Nov-10	Barclays Bank Plc	1,000,000	1.47%	17-Nov-11
23-Mar-11	Bank of Scotland	1,000,000	2.05%	23-Mar-12
31-Mar-11	Barclays Bank Plc	2,000,000	1.58%	30-Mar-12
1-Apr-11	Nationwide Building Society	2,000,000	1.00%	19-Sep-11
	Blackrock Money Market Fund*	2,000,000	0.67%	
	Ignis Money Market Fund*	2,000,000	0.73%	
	Prime Rate Money Market Fund*	2,000,000	0.78%	
	Deutsche GLS Money Market Fund*	1,710,000	0.62%	
	Eurobond Fixed Rate	2,080,426	5.72%	6-Jun-12
	Eurobond Fixed Rate	3,094,290	3.93%	7-Dec-11
	Eurobond Fixed Rate	1,051,109	5.41%	14-Jan-13
	Eurobond Fixed Rate	1,113,659	3.11%	15-Apr-14
	Corporate Bond Fixed Rate	5,101,845	2.74%	4-Nov-11
	Eurobond Floating Rate Note	6,000,000	SONIA+ 0.35%	18-Mar-14
		44,151,329		

* Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate.

Prudential Indicators – Quarter 1 monitoring

Background:

23. In March 2011, Full Council approved the indicators for 2011/12, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allowed local authorities to determine their own borrowing limits provided they are affordable and that every local authority complies with the code.

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Prudential Indicator 1 - Capital Expenditure:

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

	2011/12 Original Estimate £'000	Expected Outturn £'000	2011/12 Variance £'000	Reason for Variance
Approved capital schemes	5,341	8,606	3,265	Increase arises from net slippage to later years and new schemes agreed by Full Council in February 2011 as part of the annual process merged into programme
Reserves	1,168	3,358	2,190	Slippage from 2010/11 accounts for the majority of the variance
Total Expenditure	6,509	11,964	5,455	

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

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

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

Portfolio	2011/12 Original Estimate £'000	Expected Outturn £'000	2011/12 Variance £'000	Reason for Variance
Financing Costs*	(673)	(674)	(1)	
Net Revenue Stream	17,345	17,683	338	Carry forwards approved in June have now been incorporated within the overall budget
%*	(3.9)	(3.8)		

*figures in brackets denote income through receipts and reserves

27. The financing costs include interest payable, notional amounts set aside to repay debt, 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:

28. 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:

	2011/12 Revised Estimate £'000	Expected Outturn £'000	2011/12 Variance £'000	Reason for Variance
Opening CFR	9,352	9,415	63	
Capital Expenditure	5,341	8,606	3,265	See explanations for indicator 1 above
Capital Receipts*	(3,664)	(5,654)	(1,990)	Slippage of schemes approved in previous years
Grants/Contributions*	(1,677)	(2,952)	(1,275)	Reprofiling of income expected in future years
Minimum Revenue Position (MRP)	(126)	(159)	33	Additional finance leases
Additional Finance Leases		131	131	
Closing CFR	9,226	9,387	227	

*Figures in brackets denote income through receipts or reserves. The original allocation of Capital Receipts and Grants/Contributions were transposed in the Treasury Management Strategy Statement.

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

29. 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.

	2011/12 Original Estimate £'000	2011/12 Qtr 1 Actual £'000	2011/12 Variance £'000	Reason for Variance
Net Borrowing	(46,434)	(43,458)	2,976	
CFR	9,226	9,256	30	

30. 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:

31. 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

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deemed to be variable rate deposits. Fixed rate deposits are investments in Eurobonds, Corporate Bonds and term deposits exceeding 365 days.

	2011/12 % Limit	2011/12 Qtr 1 Actual %	2011/12 Variance %	Reason for Variance
Fixed	80	28.18	51.82	Within limit
Variable	100	71.82	28.18	Within limit

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

	2011/12 % Limit	2011/12 Qtr 1 Actual %	2011/12 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

33. 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:

34. 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	2011/12 Maximum Limit £'000	2011/12 Qtr 1 Actual £'000	2011/12 Expected Outturn £'000	Reason for Variance
Between 1-2 years	25,000	1,051	6,000	Within limit
Between 2-3 years	20,000	7,114	1,114	Within limit
Between 3-4 years	10,000	0	0	Within limit
Between 4-5 years	10,000	0	0	Within limit
Over 5 years	5,000	0	0	Within limit

35. 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:

36. 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). This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2011	£'000
Borrowing	0
Other Long-term Liabilities (Finance Leases)	301
Total	301

Prudential Indicator 8 - Authorised Limit for External Debt:

37. 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.

	2011/12 Estimate £'000	2011/12 Qtr 1 Actual £'000	2011/12 Variance £'000	Reason for Variance
Borrowing	11,600	0	(11,600)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	400	198	(102)	Within limit
Total	12,000	198	(11,702)	

Prudential Indicator 9 – Operational Boundary for External Debt:

38. 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.

	2011/12 Estimate £'000	2011/12 Qtr 1 Actual £'000	2011/12 Variance £'000	Reason for Variance
Borrowing	9,700	0	(9,700)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	300	198	(102)	Within limit
Total	10,000	198	(9,802)	

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Prudential Indicator 10 - Maturity Structure of Fixed Rate borrowing:

39. 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	2011/12 Upper Limit %	2011/12 Lower Limit %	2011/12 Qtr 1 Actual %	2011/12 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:

40. 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	2011/12 Original Estimate £
Decrease in Band D Council Tax	0.20

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

41. 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 18 th April 2002.

Conclusion

42. 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*

Audit Committee – 25th August 2011

7. Date of Next Meeting

The next meeting of the Audit Committee is scheduled to take place on Thursday, 22nd September 2011 at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.
