

Date: 24 July 2009

To: Members of the Finance & Audit Services Select Committee

Mr PAS Hall (Chairman)
Mr JG Bannister
Mr PR Batty
Mr DM Gould
Mr MR Lay

Mr R Mayne
Mr K Morrell
Mr R Ward
Ms B M Witherford
(1 vacancy)

Copy to all other Members of the Council

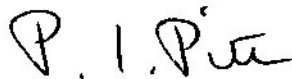
(Other recipients for information)

Dear Councillor

There will be a meeting of the Finance & Audit Services Select Committee in Committee Rooms 2 and 3, Council Offices, Hinckley on **Monday, 3 August 2009 at 6.30 pm**, and your attendance is required.

The agenda is set out overleaf.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. I. Pitt'.

Pat Pitt (Mrs)
Corporate Governance Officer

FINANCE AND AUDIT SERVICES SELECT COMMITTEE

3 AUGUST 2009

A G E N D A

1. APOLOGIES AND SUBSTITUTIONS

2. DECLARATIONS OF INTEREST

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

3. MINUTES OF PREVIOUS MEETING

To confirm the minutes of the meeting held on 15 June 2009. Copy attached marked 'FASC9' (pages 1 – 3).

4. INTERNAL AUDIT REPORT – BLOCK 1 2009-10

Report of Bentley Jennison attached marked 'FASC10' (pages 4 - 21).

5. GENERAL FUND BUDGET STRATEGY FOR FINANCIAL YEAR 2010/11

Report of the Director of Finance attached marked 'FASC11' (pages 22 – 31).

6. ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS

Report of the Director of Finance attached marked 'FASC12' (pages 32 - 39).

7. QUARTERLY MONITORING OF MEDIUM TERM FINANCIAL STRATEGY

Verbal report by the Director of Finance.

8. WORK PROGRAMME 2009/10

Attached marked 'FASC13' (pages 40 - 48).

9. DATE OF NEXT MEETING

Members are reminded that the next meeting is scheduled for 6.30pm, 14 September 2009.

HINCKLEY & BOSWORTH BOROUGH COUNCIL
FINANCE & AUDIT SERVICES SELECT COMMITTEE

15 JUNE 2009 AT 6.30 PM

PRESENT: Mr PAS Hall - Chairman

Mr DM Gould, Mr MR Lay, Mr R Mayne, Mr K Morrell, Mr R Ward and Mrs B Witherford.

Officers in attendance: Mr Michael Brymer, Mr D Bunker, Mr S Kohli, Mr D Moore and Miss R Owen.

Mr R Barnett from Bentley-Jennison was also in attendance.

1. APOLOGIES

No apologies were submitted however an error on the agenda was highlighted in that Mr Gould should be listed as a member of the Select Committee instead of Mr Inman.

2. DECLARATIONS OF INTEREST

No interests were declared at this stage.

3. MINUTES (FASC1)

It was noted that the final paragraph of minute no 5 should read ‘... at present only a commercial recycling service could be provided...’.

RESOLVED – the minutes of the meeting held on 29 April 2009 be agreed subject to the above amendment.

4. RISK MANAGEMENT (FASC6)

Members were advised on progress to manage strategic and operational risks and the development of the Council’s risk management arrangements. During presentation of the report it was noted that the Business Continuity Plan had been revised in light of new standards and risk 17 (Benefits subsidy overspend impacts on Medium Term Financial Strategy) had become a red risk due to the current economic climate.

RESOLVED –

- (i) the Strategic Risk Register be endorsed as an accurate account of the current strategic risks facing the authority;

- (ii) progress to develop action plans for the net red and amber risks be endorsed;
- (iii) the Risk Management Implementation Plan 2008/09 be endorsed.

5. PLASTIC & CARDBOARD KERBSIDE COLLECTION SERVICE (FASC7)

Further to a request at a previous meeting of the Select Committee, additional information was provided on the plastic and cardboard kerbside collection service.

In response to a Member's question about whether the authority could continue to increase recycling and remain cost effective, it was explained that we were in the top five in the country for cost/performance ratio so it was cost effective and also cheaper than landfill. It was also noted that the price for plastics had increased but that the tonnage collected in the blue recycling boxes had decreased, perhaps due to the current economic climate and people purchasing fewer bottled beverages. As such the new service was allowing the Council to achieve its agreed recycling targets.

RESOLVED – the report be noted and the value for money of the service be endorsed.

6. STRATEGY FOR INTERNAL AUDIT (FASC2)

Mr Barnett from Bentley Jennison presented the Internal Audit Strategy. He drew attention to page 10 of the agenda which set out considerations for the Select Committee. It was noted that five days' contingency was built into the strategy but that this was low compared to some authorities and wouldn't cover a lot of work. It was noted that if the Select Committee wished to request that work be undertaken in a particular area, the Director of Finance would look to see if days could be taken from another area.

RESOLVED – the strategy be noted.

7. FINAL OUTTURN 2008/09 (FASC3)

Members received a report which presented the final outturn for 2008/09. The Committee was reminded that a revised budget had been devised in January and savings had since been identified. It was noted that the Housing Revenue Account had recovered from the overspend.

With regard to the apparent overspend on the Goddard building and Atkins site, it was explained that this related to accelerated works and not extra costs, and that funding had been drawn down quicker than originally expected.

RESOLVED – the report be noted and recommendations be endorsed.

8. STATEMENT OF ACCOUNTS 2008/09 (FASC4)

The Statement of Accounts for 2008/09 was presented to the Committee before Council's approval being sought. It was noted that market value impairments on properties had had an impact. It was suggested that accounting practices caused the figures to appear unclear and worse than the actual situation.

RESOLVED – the report be endorsed.

9. ANNUAL CORPORATE GOVERNANCE STATEMENT (FASC5)

Members gave consideration to the Annual Corporate Governance Statement. It was highlighted that the statement showed sound systems of internal control.

RESOLVED – the report be endorsed.

10. CONCESSIONARY TRAVEL

The Director of Finance gave a verbal update on concessionary travel.

11. WORK PROGRAMME 2009/10 (FASC8)

Members gave consideration to the Select Committee's work programme for 2009/10.

RESOLVED – the work programme be agreed.

12. DATE OF NEXT MEETING

It was noted that the next meeting was scheduled for 15 June 2009.

(The meeting closed at 7.45 pm)



RSM! Bentley Jennison

HINCKLEY AND BOSWORTH BOROUGH COUNCIL

INTERNAL AUDIT REPORT – BLOCK 1 2009-10

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1 INTRODUCTION

- 1.1 The operational plan for 2009/10 was approved by the Finance and Audit Services Select Committee in June 2009. This report summarises the outcome of work completed to date against that plan and incorporates cumulative data in support of internal audit performance and how our work during the year feeds in to our annual opinion.
- 1.2 Progress against the Operational Plan is detailed at **Appendix B**.

2 DRAFT REPORTS ISSUED

Two reports for 2009/10 have been finalised since we last reported to the Finance and Audit Select Committee. These reports relate to:-

1. Car Parks
2. Health & Safety

A summary of performance, opinions and recommendations is shown as **Appendix A**. The Executive Summaries and agreed Action Plans are contained within **Appendix C**.

APPENDIX A: Summary of performance, opinions and recommendations for draft reports issued

Reports being considered at this Committee meeting are shown in ***bold and italics***. The definitions with regard to the levels of assurance given and the classification of recommendations are given below.

AUDITABLE AREA	Date of debrief meeting	Draft Report Issued	Mgmt Response Received	Final Report Issued	Audit Type	Assurance Level Given	Number of Recommendations made				
							F	S	MA	Total	Agreed by mgmt
<i>Car Parks</i>	<i>21/05/09</i>	<i>08/06/09</i>	<i>20/06/09</i>	<i>20/06/09</i>	<i>Systematic</i>	<i>Substantial</i>	-	2	-	2	2
<i>Health & Safety</i>	<i>28/05/09</i>	<i>08/06/09</i>	<i>20/06/09</i>	<i>20/06/09</i>	<i>Key Controls Testing</i>	<i>Adequate</i>	-	2	4	6	3
TOTAL:							-	4	4	8	5

APPENDIX B: OPERATIONAL PLAN 2009/10 PERFORMANCE AS AT June 2009

Coverage	Planned Audit Committee	Actual Audit Committee	Plan Days	Actual Days	Comments / Status
<i>Car Parks</i>	September 2009	August 2009	6	6	Final Report Issued
<i>Health & Safety</i>	August 2009	August 2009	8	8	Final Report Issued
Corporate Governance	February 2010		5		
Treasury Management	February 2010		8		
Budgetary Control & Budget Setting	February 2010		8		
General Ledger/Main Accounting System	February 2010		8		
Asset Register	February 2010		8		
VAT	TBC		8		
Creditors	February 2010		8		
Income & Debtors	April 2010		8		
Procurement Strategy	February 2010		6		
Payroll	February 2010		8		
Risk Management	February 2010		5		
Insurance	February 2010		6		
Housing Benefit	April 2010		20		
Council Tax	February 2010		8		
NNDR	February 2010		8		

Coverage	Planned Audit Committee	Actual Audit Committee	Plan Days	Actual Days	Comments / Status
IT Security/Data Protection	TBC		5		
Outsourced IT Maintenance	TBC		5		
New Council Office Development	April 2010		5		
Training & Development	February 2010		5		
Absence Monitoring	September 2009		5		
Flexible Working Arrangements	December 2009		5		
Major Projects	December 2009		5		
Public Consultations/Citizens Panel	September 2009		6		
Performance Management	December 2009		6		
Key Performance Indicators	October 2009		5		
Project Management	October 2009		5		
Client/Contractor Teams	December 2009		5		
Planning	December 2009		5		
Building Control Fees	December 2009		5		
Land Charges	December 2009		5		
Allocations	December 2009		5		
Rent Collection & Arrears	December 2009		5		
Housing Repairs	February 2010		15		
Building Regulations (Part P)	December 2009		5		
Voids Management	February 2010		5		

Coverage	Planned Audit Committee	Actual Audit Committee	Plan Days	Actual Days	Comments / Status
Homelessness	February 2010		6		
Planned Maintenance	December 2009		6		
Sustainability	December 2009		6		
Groundcare	April 2010		6		
Recycling	September 2009		6		
Street Cleansing	December 2009		6		
Refuse Collection	September 2009		6		
Licensing	December 2009		6		
Follow-ups	April 2010		8		
Audit Management	-	-	25	5	
Contingency	-	-	5		
TOTAL DAYS			333	19	

APPENDIX C: SUMMARIES OF RECENT FINALISED INTERNAL AUDIT REPORTS

Audit	CAR PARKS	Date of audit	May 2009
Executive Summary			
<p>The objective of the audit was to provide assurance that the Authority's car parks are effectively managed and controlled; and that income due is accurately and completely accounted for. The Council operates a total of 27 car parks within the Borough, nine of which are free and the remainder are Pay and Display. All Pay and Display car parks are within Hinckley Town Centre and Market Bosworth. In 2008 / 09 the Council budgeted and achieved income of almost £600k from its car park operations.</p> <p>We noted that the current list of car park fees and charges is dated 2007 and was approved by the Council in February of that year; this was the last time the charges were increased. Part of the manifesto of the Councillors appointed was to maintain car park fees at the current level. The economic downturn has affected the Council's overall income streams and therefore increasing car park charges is being considered. Charges for free car parks have also been considered in order to generate further revenue.</p> <p>Ticket issuing machines at the Pay and Display car parks collect money from customers; this is collected and banked by Kings Secure Couriers in-line with the collection schedule agreed. This schedule ensures that all car parks are collected on at least a weekly basis. On collection, the courier can obtain the safe from the machine but they do not have access to the contents of the safe. Kings provide a report of income collected, income banked and a receipt from the ticket issuing machine. During our testing we noted differences on each day between what the machines had recorded had been taken and what had been banked. Further investigations identified that, positive variances could be due to the machines not issuing change; however, in 14 of the 20 days reviewed the amounts banked were less than that the machines had receipted. A total negative variance of £16.75 was identified for the 15 days reviewed in Hinckley Town Centre car parks and a positive variance of £0.10 was noted for the Market Bosworth car park over 5 days. The report provided by Kings is reviewed by the Car Parks Supervisor, but there is no escalation of reporting where variances are identified.</p> <p>Unused tickets are controlled stationery and have no value until they have been printed; they are retained in a locked cupboard within the Car Parks Office at the Depot which is accessible by keypad lock once in the building. Tickets are sequentially numbered and a log of tickets issued is maintained by the Car Parks Supervisor. The Civil Enforcement Officers are responsible for the refilling of Pay and Display machines with tickets; and the Officer issued with tickets is noted in the log. Persons visiting the Council on official business are entitled to receive a refund for up to one hours parking, this is issued by Cashiers upon receipt of a pay and display ticket authorised by the Officer the customer was visiting. We noted four out of 15 days where the receipt had not been authorised by an Officer of the Council but a refund had been issued and therefore the system of refunding car park tickets could be abused.</p> <p>The Council has contracted the administration of Penalty Charge Notices (PCN) to Leicestershire County Council. Leicestershire County Council make payments based on a profiled budget of expected PCNs issued, quarterly an adjustment is made in-line with actual PCNs issued. PCNs are issued by Civil Enforcement Officers, the Council is in Partnership with Harborough District Council to provide Civil Enforcement Officers within the Borough to, inspect Pay and Display car parks and issue both on street and off street PCNs. Inspection of Pay and Display car parks is carried out fortnightly by the Civil Enforcement Officers and free car parks are inspected monthly by the Car Parks Supervisor.</p>			

Income from car parks is monitored by Finance and the Environmental Services Manager (Commercial) on a monthly basis to identify any variances between actual income achieved and that profiled in the budget. The capital budget for the maintenance of car parks has been reduced from £20k to £10k this year. An analysis of car park income and the number of tickets issued was completed at the end of the year which identified the best performing car parks.

Opinion

Taking account of the issues identified in the Executive Summary and Action Plan below, in our opinion the control framework for the area under review, as currently laid down and operated, provides **substantial assurance** that risks material to the achievement of the organisation's objectives for this area are adequately managed and controlled.

Scope of the audit

The objective of our audit was to evaluate the auditable area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. The following limitations to the scope of the audit were agreed when planning the audit:

- We will not actively seek to detect fraud or error.
- It must also be noted that our work does not provide an absolute assurance that material errors, loss or fraud do not exist.
- Testing will be carried out on a sample basis, and therefore absolute assurance cannot be provided.

Action Plan: The following are the recommendations and actions arising from the audit.

	Recommendation	Categorisation	Accepted Y/N	Management comment	Implementation Date	Manager Responsible
1	Where a discrepancy occurs between, the value the ticket machine has recorded and the value that is counted by Kings, this should be reported to management in order for them to monitor such variances. Further investigation should take place to ascertain the reason for the discrepancy and to identify whether this is due to machine or human error.	Significant	Y	A trigger of £20 discrepancy in total for all machines in any one day has been agreed with the auditors as a suitable level upon which to begin an investigation.	1st June 2009	Steven Merry Environmental Health Manager (Commercial)
2	Cashiers should ensure that only tickets with an authorising signature are refunded.	Significant	Y	Cashiers have been reminded of the need to ensure an officer signature has been placed on the ticket prior to issuing a refund.	1st June 2009	Steven Merry Environmental Health Manager (Commercial)

Audit	HEALTH & SAFETY	Date of audit	MAY 2009
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Executive Summary

The objective of the audit was to ensure the Council takes all the necessary steps to comply with statutory Health and Safety legislation, and that risks are identified, assessed and minimised by effective remedial action.

During the audit visit, it was noted that the Council has recently restructured the Health and Safety Section. A Health and Safety Officer left the post in April 2009 and their duties are being undertaken by the Principal Safety, Health & Resilience Officer and the Unison Health and Safety representative.

Our review confirmed that the Council has an appropriate and comprehensive Health, Safety and Welfare Policy in place. The document was approved by the Board in November 2008 and the policy covers the Council's commitment to Health and Safety Management. Guidance notes are available on the staff intranet and further guidance notes will be issued over the next 18 months by the Principal Safety, Health & Resilience Officer. With the proposal of flexible working and the potential increase of lone workers, a Lone Working Policy is in place to address Health and Safety issues where employees are required to work alone.

We ensured that all relevant Health and Safety policy and procedural documents have been made available to staff. A quarterly Health and Safety newsletter is being published so that key issues are communicated to all staff.

The Principal Safety, Health & Resilience Officer keeps up to date with changes in legislation through a variety of means including; updates from the Institute of Occupational Safety and Health, and from specialist companies such GEE and Croner Health and Safety; who provide updates on changes in legislation and best practice. The Council is also a member of The Leicestershire and Rutland Health and Safety Committee.

In accordance with the Health, Safety and Welfare Policy; all new starters should undergo a Health and Safety induction process within one month of commencing employment. They also receive a departmental induction on their first day, where health and safety issues are discussed. Internal and external training courses on Health and Safety issues are provided to relevant staff throughout the year. A sample of 15 new starters, over the last six months, were selected and reviewed; this testing identified: - only 11 had received a health and safety induction course, of which nine were within one month of commencing employment. Further investigations regarding the four new starters where health and safety training had not been provided revealed, one employee was a self-employed contractor who became a permanent employee in December 2008 of the Authority and the remaining three had not received training at the time of the audit as the Health and Safety Officer left the Authorities employment in April 2009. Training for these three employees has been scheduled to take place in June 2009.

The Council has thirteen nominated First Aiders. The list of nominated First Aiders can be obtained from the Intranet and can be found on the Health and Safety notice boards located around the buildings. Fire drills take place every six months and Council has appointed thirty-four fire marshals who are responsible for ensuring that their department has been evacuated in an emergency.

It was found that a Health and Safety audit has been introduced and the audit is undertaken by the Principal Safety, Health & Resilience Officer. The audit ensures that Service Units are complying with all Health and Safety policies and procedures and it identifies risks that have not been adequately eliminated or controlled. The Service Managers / Supervisors are fully responsible for implementing further actions to ensure Health and Safety is being maintained to a high standard. The Service Managers / Supervisors are also required to perform risk assessments and inspections on a regular basis for their department / area. These are reviewed by the Principal Safety, Health & Resilience Officer during the Health and Safety audit.

Contractors are made aware of the Council's Health and Safety requirements by having to sign the 'Safe Working Procedure Guide' prior to commencing work on site. Contractors are also required to obtain a written permit to work from the Estates and Asset Manager, where applicable. We reviewed a sample of contractors and ascertained that three out of five did not have a signed Safe Working Procedure Guidance in place. Further testing also revealed a permit to work has not been issued to the contractor G R Slater, for brickwork repairs at St Mary's School; and permits to work had not been signed off on completion of works.

All reported accidents, incidents and near misses should be investigated by the Health and Safety Section. The accident statistics, including the actions taken, are collated and reported to the Local Joint and Safety Panel quarterly. All incidents reported since January 2009 were reviewed as part of this audit which found: - two out of 15 accidents were not reported in the Accident / Incident Statistics although an accident record had been completed and filed in the accident folder. We also noted that accident records have not been completed properly (i.e. forms were not sequentially numbered and also were not signed in one instance). Although a standard form was issued in December 2008, we did observe a number of instances where different forms to the standard were being used to record accidents and incidents.

The total number of accidents to the end of May 2009 is 15. Of the accidents that have occurred this year, one accident was reportable under RIDDOR.

Opinion

Taking account of the issues identified in the Executive Summary and Action Plan below, in our opinion the control framework for the area under review, as currently laid down and operated, provides **adequate assurance** that risks material to the achievement of the organisation's objectives for this area are adequately managed and controlled.

Scope of the audit

The objective of our audit was to evaluate the auditable area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. The following limitations to the scope of the audit were agreed when planning the audit:

- We will not carry out ourselves any Health and Safety inspections or risk assessments.
- The review is not intended to substitute any other Health & Safety inspections.

Action Plan: The following are the recommendations and actions arising from the audit.

	Recommendation	Categorisation	Accepted Y/N	Management comment	Implementation Date	Manager Responsible
1	The Council should ensure that all new starters attend a Health and Safety Induction Course within one month of commencing employment; in accordance with the Council's Health, Safety and Welfare Policy.	Significant	N	This is in place. A day is booked once a month and the Health and Safety Officer is notified of new starters. The only time this does not take place is when a risk vs. time, trouble, cost etc is calculated e.g. if only 1 member of staff needs an induction and they work in a non-high risk area then it will be more than 1 month before they are formally inducted. However, they will receive their office induction from their manager.	N/A	Julie Stay / Adrian Wykes
2	The Health and Safety Internal Report should specify the implementation date for each recommendation raised, according to their priority. The non-conformity identified should be re-assessed within a maximum time-frame of three months by the Principal Safety, Health & Resilience Officer; in accordance with the Health, Safety and Welfare Policy.	Merits Attention	Y	In place.	June 2009	Adrian Wykes

	Recommendation	Categorisation	Accepted Y/N	Management comment	Implementation Date	Manager Responsible
3	Human Resources should review and update the register of authorised lone workers.	Merits Attention	In Part	HR carried out lone worker training during 2008. HR does hold a list of lone workers which was agreed by managers during 2008. What is accepted is that this has not been updated since 2008. Therefore it is proposed to update the list and bring it up to date.	August 2009	Julie Stay

	Recommendation	Categorisation	Accepted Y/N	Management comment	Implementation Date	Manager Responsible
4	<p>The Estate and Asset Management Manager should ensure that all contractors have signed and returned the 'Safe Working Procedure Guide' prior to commencement of any works on site.</p> <p>Permits to work should be issued to contractors appropriately. On completion of all work, the permit to work clearance should be signed off to certify the work area has been completed in accordance with the permit to work.</p>	Significant	N	<p>"Safe Working Procedure Guide" We are in the process of updating the current document in line with latest legislation and shall be sending this to all contractors that we have used recently and all new contractors as a matter of course</p> <p>We are putting in place a new formal procedure that will not allow contractors to be entered onto the financial system until we have received and accepted their signed procedure document.</p> <p>"Permits to Work" (for operational sites) are issued appropriately but are available from 2 locations and from a number of estates staff which can lead to confusion on issuing. We are now looking to undertake mini audits on these so that there is no omissions. Contractors may leave site after completing minor tasks without allowing for sign off.</p>	N/A	Malcolm Evans

	Recommendation	Categorisation	Accepted Y/N	Management comment	Implementation Date	Manager Responsible
5	<p>The Principal Health, Safety and Resilience Officer should remind all members of staff that the standard 'Accident / Incident & Near Miss Reporting Form' should be used when recording incidents. The form should be completed in full, signed and returned promptly.</p> <p>All incidents recorded should be included in the 'Accident/Incident Statistics Report' presented to the Local Joint and Safety Panel.</p>	Merits Attention	N	<p>The H&S Officer informed all staff via email and through an H&S newsletter of the requirement to use the new accident form. The H&S Officer emphasised this to all new staff via the H&S induction.</p> <p>All accidents are reported to the LJP as can be seen on the meeting minutes of this group. Only accidents that are out of the scope of internal H&S, external HSE or enforceable accidents are not submitted as they are the remit of other agencies and I only receive them as a mistake.</p>	N/A	Adrian Wykes
6	<p>It is recommended that the Health and Safety Section budget monitoring reports are distributed to the Principal Health, Safety and Resilience Officer.</p> <p>A monthly meeting should be held between the Senior Accountant and the Principal Health, Safety and Resilience Officer to discuss and monitor variances.</p>	Merits Attention	Y	As part of the restructure Adrian Wykes is now the budget holder and monthly meetings will be held with him to monitor budget reports on a monthly basis.	June Budget monitoring w/c 01.07.09	Daksha Mehta /Adrian Wykes

DEFINITIONS

Our recommendations are categorised as follows: -

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits Attention	Action advised to enhance control or improve operational efficiency.

Our opinions are categorised as follows: -

	Level	System Adequacy	Control Application
positive opinions	Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Adequate Assurance	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
negative opinion	Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

For follow up reviews our opinions are categorised as follows: -

Progress in implementing recommendations	Overall number of recommendations implemented	Consideration of fundamental recommendations	Consideration of significant recommendations	Consideration of merits attention recommendations
GOOD	80% +	None outstanding	Those significant recommendations outstanding are in the process of being implemented	Those merits attention recommendations outstanding are in the process of being implemented
Reasonable	50 – 80%	Those fundamental recommendations outstanding are in the process of being implemented	Those significant recommendations outstanding are in the process of being implemented	Those merits attention recommendations are in the process of being implemented
Little	< 50%	Unsatisfactory progress has been made	Unsatisfactory progress has been made	Unsatisfactory progress has been made

FINANCE & AUDIT SERVICES SELECT COMMITTEE – 3 AUGUST 2009

REPORT OF DIRECTOR OF FINANCE RE GENERAL FUND BUDGET STRATEGY FOR FINANCIAL YEAR 2010/11

1. PURPOSE OF REPORT

To outline the general principles to be adopted for next year's General Fund Revenue Budget.

2. RECOMMENDATIONS

To approve the principles set out in this report to form the basis of the budget strategy for the financial year 2010/11.

3. BACKGROUND TO THE REPORT

3.1 When Members set the council tax for the forthcoming year, 2010/11, the Director of Finance will have a duty under Part II of the Local Government Act to report on the robustness of the budget and the adequacy of the reserves. Clearly the Director of Finance will have significant responsibilities in delivering a robust budget, particularly in determining the resources available and in making the link between the affordability of spending plans and the implications for council tax over the life of the Medium Term Financial Strategy (MTFS). In the current national/international economic climate, this will provide a number of challenges for elected members and officers of the Council.

3.2 The Medium Term Financial Strategy (MTFS)

The Authority's Medium Term Financial Strategy (MTFS) for the years 2009/10 to 2011/12 was approved by Council on 28th April 2009.

The MTFS is the instrument for ensuring that the council's strategies and policies are implemented in a financially effective way as set out in the policy framework and budget procedure rules contained within the Constitution. The Financial Strategy reflects and incorporates the delivery of priorities as set out in the Corporate Plan. There are also a number of internal and external pressures that are important to understand and update Members on, so that expectations can be appropriately managed, and to ensure that risks are highlighted and wherever possible, mitigated. National factors, together with the requirements of Comprehensive Area Assessments, affect the local government finance system and make this subject a complex area, the impact of which has been set out in the MTFS.

The MTFS has been developed through collaboration between Executive members, Opposition group members, the Strategic Leadership Board (SLB), the Corporate Operations Board (COB) and after consultation on priority services with the citizens of Hinckley and Bosworth. It is based on the principles of financial sustainability, managing the impact of significant increases in resource requirements and linking capital and revenue budgets/decisions.

The key issues that impact on the Medium Term Financial Strategy and therefore the setting of the 2010/11 budget are:

- Current Financial Position including Working Balances/Level of Reserves
- Local Government Finance Settlement
- Revenue Budget and service commitments
- Capital Budget and related commitments
- Resources including Council Tax
- Public Priorities
- Priority Assessment Process
- Links to Strategic and Service Objectives.

3.3 The MTFS takes into account the impact of the economic recession and incorporates significant savings for 2010/11 as follows:-

	£000
Savings from Voluntary Redundancies	300
Savings from Reduction in hours	200
Staff and non-staff savings (Appendix 4 & 5 of MTFS)	1,127
Senior Management Review	200
Increase in Planning and Building Control Income	185

	£2,012

The above savings included in the MTFS include for savings in 2010/11 from an hours reduction (or equivalent) in the working week as it was assumed at the time of writing the MTFS that the hours reduction would be effected to 31 March 2011. However, it is now envisaged that staff would revert back to their normal contracted hours by April 2010. The revised forecast level of saving compared to the MTFS can be summarised as follows:-

	2009/10	2010/11	2011/12
	£	£	£
Total saving from VR's, reduction in hours and Senior Management Restructure	434,417	511,979	523,740
Other savings as per Appendix IV and V of MTFS	1,077,000	1,312,000	1,156,000
	1,511,417	1,823,979	1,679,740
Known reductions to target savings	(231,558)	(30,931)	(30,931)
Known increases to target savings	95,000	-	-
	1,374,859	1,793,408	1,648,809
Target per MTFS	1,327,000	2,012,000	1,656,000
SURPLUS/(DEFICIT)	47,859	(218,952)	(7,191)
CUMULATIVE POSITION	47,859	(171,093)	(178,824)
Carry forward of 2008/09 Reduction in amount taken from G F Balances	131,000		
Revised Cumulative Position	178,859	(40,093)	(47,284)

The savings and changes in the projections for 2010/11 will be built into the 2010/11 target budget (see below).

In addition to factors identified in the MTFS, the budget strategy for the forthcoming year is drawn up after giving consideration to the following two factors:

- a) The final Outturn for the financial year ended 31st March 2009 reported to Council on 24th June 2009 was an underspend of £131,000 against the Revised Budget prepared in the 2008/09 year. This underspend position had been anticipated during the financial year and had previously been reported to Members. The reasons for this variation were detailed in the Outturn report. Against the Original Budget there was an overspend of £60,000.

SLB and Executive members, after carrying out a review of the variances, were satisfied that the underspends were due to the Council's policy of prudent budget setting in not budgeting for income unless there is certainty of receipt and the amount can be accurately quantified. The underspend was primarily due to anticipated additional funding from the Local Authority Business Grant Initiative (LABGI), additional planning fee income and additional recycling credits. SLB and Executive were also satisfied that the underspend did not in any way result from (or contribute to) the detrimental delivery of public services.

b) General Fund Balances and Reserves

The position with regard to the level of the General Fund Balance and Earmarked Reserves at the date of writing this report are as follows:

i) General Fund Balances

	£000
Balance as at 31 st March 2009	1,673
Amount Budgeted to be taken from Balances 2009/10	-250
Budgeted Balances 31 March 2010	1,423
Approved carry forward of 2008/09 underspends	-84
Other approved variations	49
Underspend – Q/E 30.06.09	* 358
Available balance	1,746

Therefore, the General Fund Balance at the date of writing this report, after adjusting for the brought forward underspend, stands at £1,746. This is above HBBC's acceptable level of 10% of the 2009/10 Net Budget Requirement (£1.131m).

* This includes the additional savings identified after the budget was agreed for 2009/10 (meeting with Executive 30th March 2009)

ii) General Fund Earmarked Reserves

The general fund earmarked reserves at 31st March 2009 and projected to 31st March 2010 are as follows:-

	£000
2008/09	2,709
2009/10	2,478

A full analysis of the earmarked reserves is given in Appendix A to this report.

THE STRATEGY FOR 2010/11

4.1 Base Budget

- For 2010/11 each service area budget (apart from utility and fuel costs : see 4.2 below) will be based on 2009/10 original budget after adjustment for Capital Accounting adjustments. This will be known as the “**base budget**”.
- The Accountants will carry out a review of the last three years actual outturn against budgets. Where there has been a consistent pattern of underspends then a report will be produced for the Director of Finance to consider reductions in those budgets. The budget will be reduced in accordance with recommendations presented by the Director of Finance to the Executive and Finance and Audit Select Committee.
- Central support costs e.g. legal, financial, secretarial, personnel etc, will be charged from other support service areas. The originating support service area will control these budgets using the same principles.
- Any non-recurring (one-off) items budgeted in 2009/10 will be deducted from the base, e.g. options appraisal studies, one-off training/study costs, one off equipment purchases.
- Any recurring growth bids or supplementary estimates approved in 2009/10 will be included in the base, e.g. subscriptions, software maintenance, on-going training.
- Any increases in fees and charges for 2009/10 will be included in the base budget.
- All utility budgets (electricity, gas, telephone, fuel) will be reduced to zero.
- The above will be known as the “**revised base budget**”. The revised base budget will be further adjusted for service priorities identified by Members/Stakeholders (see section 5 below) and for the Corporate Issues identified in section 6 below.

4.2 Target Budget

- The target for the 2010/11 budget will be base plus adjustments as follows:
- For Contracts the Retail Price Index for June 2009 stood at -1.6%. It is anticipated at present that inflation will remain at around zero. Therefore a rate of zero will be applied to 2009/10 contractual costs. Where budget holders have knowledge of price rises that differ in the contract, then adjustments can be made to these budgets to reflect actual price changes.
- The rate of zero inflation increase will be reviewed again in October 2009.
- For non-contractual Supplies and Services a rate of zero will be applied to the 2009/10 original budget. With assumed RPI at zero, this represents no change in real terms.
- Salary and wages budgets will be calculated separately and will be based on the total pay bill of the Authority as at 1st April 2009. Inflation for pay and pay costs will be provided on 2009/10 costs at 1%.
- A vacancy factor of 3% will be applied.
- For utilities (electricity, gas, telephone and fuel) zero based budgeting will be applied.
- Training budgets. Zero based budgeting was applied in arriving at the 2009/10 budgets. All training budgets will be frozen at 2009/10 levels.

- Fees and charges for 2010/11 will be set after carrying out a full review, where appropriate, and after carrying out a benchmarking exercise with our neighbouring districts and family Authorities.
- The Service Head (Corporate Operations Board member) for each service area should meet any new commitments that increase budgets above target by reviewing existing budgets in order to identify deliverable savings.
- An above inflation rise may be provided to the identified priority services in circumstances set out in paragraph 4.3 below.
- Additionally, at a service delivery level (and therefore budgetary spend) expenditure budgets will be further 'honed' to meet the particular needs of individuals/areas within the borough.

4.3 Growth Items

- In the event that a service area is unable to keep within target budget, as set out in 4.2 above, it should draw up a list of growth items for evaluation. These growth items should be based on requirements of the Corporate Plan, the Service priorities identified by elected Members/Stakeholders and the Services' Business Delivery Plans. These growth items should be prioritised for evaluation. Any bids for additional revenue (or capital) funding must be discussed with the Head of Service for each service area and prioritised by them.
- It is unlikely that new additional budgets will be established to fund the growth bids. Therefore, service areas should evaluate existing resources for potential savings from revenue. These must be discussed with the COB and SLB member for that service area and prioritised by them.
- Executive will consider and challenge all submissions of growth and all growth bids will be evaluated for "Corporate Fit" (to Corporate Plan and agreed priorities) and in light of the corporate pressures identified in the Council's Medium Term Financial Strategy.
- Final evaluation of growth bids will take place by Executive and Council when the overall budget, government grant and precept decisions are known at the end of January 2010 or middle of February 2010.

4.4 CSR07 Efficiency

CSR07 follows the Gershon efficiency targets and raises the bar even further by extending the requirement for cashable efficiency savings to 3% over the period of the spending review. Hinckley and Bosworth Borough Council has agreed to deliver these savings through collaborative working with Leicestershire County Council, Leicester City Council, Leicestershire and Rutland Primary Care Trust, Leicestershire Police and Leicestershire Fire and Rescue. This target will be part of the suite of LAA targets, more specifically LA NI179. Hinckley and Bosworth's contribution to this area target, for 2010/11 will be £602,000 and £1.663m over the spending review period.

- Service managers will be required to identify realistic savings within their budgets and to provide an explanation for those savings (this is reflected in all Service Business Delivery Plans).
- Other areas of efficiencies will be identified through the budget process.

4.5 Capital Programme and Revenue Implications

The Council has an ambitious current Capital Programme and Town Centre Regeneration Strategy. The current continued recession has seen land values drop dramatically impacting on the funding of the Capital Programme. Further work is

therefore now required including critically reviewing the existing Capital Programme and prioritisation of the Town Centre/Regeneration schemes. Affordability, return on investment and sustainability need to be central to any decision making.

Approval of projects to be included in the Capital Programme must be given only after considering the revenue implications (borrowing costs maintenance etc) and ensuring that these revenue costs are affordable and sustainable over the life of the project(s). Inclusion of projects within a capital scheme may mean a reduction in the available revenue budget for other service growth.

5 CONSULTATION AND RESOURCE ALLOCATION

5.1 From 1st April 2009 there is a statutory duty placed on local authorities to engage with the public to inform local decision-making. Hinckley and Bosworth Borough Council has already made significant progress through community engagement to identify priorities for local people and allocate resources to provide the services they want. . To enhance our understanding of customer needs further the council has previously asked the Members of the Citizens Panel to identify the particular elements of the priority services that should receive more, the same or less funding. The Summer 2009 consultation re-affirms local priorities for Hinckley and Bosworth as a Place and the priority services that the public want. The results of the summer survey are included in Appendix A.

5.2 Executive members agreed the prioritisation exercise at their meeting on 21 July 2009.

The top 5 and bottom 5 priorities for Hinckley and Bosworth as a place to live are summarised below:-

Top 5 services

	<u>Consultation Results</u>	<u>Members</u>
<u>1</u>	Clean neighbourhoods for everyone	
<u>2</u>	Reduce crime and antisocial behaviour and improve public confidence	
<u>3</u>	Provide value for money council services	
<u>4</u>	Maintain jobs, improve skills, increase wage levels and promote opportunities for employment	
<u>5</u>	Minimise our negative impact on the environment	

Bottom 5 services

	<u>Consultation Results</u>	<u>Members</u>
<u>1</u>	Make a sufficient number of different types of affordable homes available where they are needed	
<u>2</u>	Support residents to maintain the condition of their homes	
<u>3</u>	Promote and improve services for families and young people	
<u>4</u>	Improving the provision and use of community and cultural facilities	
<u>5</u>	Increase the number of volunteers in the community	

6. CORPORATE ISSUES

- 6.1 In addition to the service pressures, there are a number of national, regional, sub-regional and local issues which have been addressed through the medium term financial planning process and will therefore need to be budgeted for in 2010/11. These are set out in sections 5 to 8 of the MTFS. Rather than repeat these pressures here, Members are requested to refer to the MTFS.

7. EXISTING AND FUTURE ANTICIPATED INTEREST RATE : 2010/11

- 7.1 Base Rate is currently 0.5% and has not moved since March 2009. Activity in the money markets suggests that the next move in rates will be upwards but there is a degree of uncertainty as to when the move will happen, although some forecasters would suggest that the upwards move will come around the final quarter 2009 with rates rising to 0.75%. Forecasters suggest that there will be a upward movement in the interest rate during 2010/11 with interest rates rising to 1.25%.
- 7.2 HBBC has a positive cash flow i.e. its investments exceed its long-term and temporary loans. For the purpose of forecasts it is considered prudent to apply average base rate of 1%.
- 7.3 The past 12 to 15 months has seen major changes in the Financial Markets worldwide. During the early part of the "Credit Crunch" there was a reluctance of financial institutions to lend to each other as they were uncertain to the extent to which other institutions held toxic assets that could impact on their viability. This led to a significant increase in the margin over base rate that was being charged on the interbank market and hence increased the returns that the Council could obtain. The downward move in base rates has to some extent been exacerbated by the narrowing of the margin between base rate and market rates. It should also be noted that the current economic climate has led to the major international credit ratings down grading the vast majority of financial institutions, which has led to a reduction in the number of counterparties can lend to and, these tending to be the larger institutions who have less difficulty in raising funds and thus pay lower margins. This high profile failure of the Icelandic banks and other notable institutions led the Council to review its lending policy to lend for shorter periods to more secure institutions which again reduces the margin over base rate availability.

8. THE FINANCE SETTLEMENT

- 8.1 The Local Government Finance Settlement is a primary source of funding with 23% of the council's funding coming from redistributed national non-domestic rates and revenue support grant and another 55% from other government grants and reimbursements. The Finance Settlement has a gearing effect with the Council Tax. This means that Council Tax does not increase by the same percentage as the percentage increase in the budget requirement. Unfunded pressures will lead to higher increase of Council Tax e.g. 1% increase in expenditure will lead to a Council Tax rise of around 3%.
- 8.2 The Comprehensive Spending Review, CSR07, provides for the following funding for 2010/11 which will be included in the budget.

	Actual (£)	Increase (£)	%
Finance Settlement	7,358,887	160,459	2.20
Concessionary Travel	188,000	5,000	2.70

9. COUNCIL TAX

The Council is restricted by the amount that council tax can be increased and thus if service expenditure rises, council tax cannot necessarily be increased to match it. Instead, alternative financing would need to be obtained or reductions in other areas of service expenditure made. The budget will be prepared with the target level of Council Tax in mind as set out in the MTFS.

10. TIMING OF THE BUDGET PROGRAMME

The timing of the budget process will be as follows:

- **June/July** - Consultation with Citizen's Panel and Executive Members.
- **August to November** - Service areas commence preparation of Business Delivery Plans in line with corporate and community strategies and priorities.
- **September** - General Fund Revenue workshops with Executive Members to set priorities and allocate resources.
- **September** - SLB/Finance and Audit Select Committee/ Executive approval of 2010/11 strategy.
- **September** - Service areas commence detailed budget process. Capital and revenue submissions from service areas.
- **End November/beginning December** - Local Government final settlement announcement (RSG/Formula Spending Share (FSS)).
- **Beginning November** - Initial Capital Programme to SLB.
- **Mid December** - Capital Programme to Executive.
- **Mid December** - Initial budget figures for review by SLB.
- **Mid December** - Initial Capital Programme to Finance & Audit Select Committee.
- **Beginning February 2010** - Initial budget figures to Executive Briefing.
- **Early February 2010** - Initial budget figures to Finance and Audit Select Committee.
- **February 2010** - Medium Term Financial Strategy approved by Council.
- **February 2010** - Final RSG settlement from DCLG.
- **Mid to end February 2010** - County, Police, Fire and Parish precepts received.
- **25 February 2010** - Budget and Council Tax approved by Council.
- Capital Programme to Executive Briefing.

11. CORPORATE PLAN IMPLICATIONS [Darren Moore to update]

11.1 The report provides the financial strategy that will underpin the delivery of the council's vision 'Hinckley & Bosworth a borough to be proud of' and Corporate Plan Strategic Aims:

Proud of our:

- Cleaner and greener neighbourhoods
- Thriving economy
- Safer and healthier borough
- Strong and distinctive communities
- Decent, well managed and affordable housing

12. CONSULTATION

The Strategy has been developed after consultation with COB, SLB, elected Members and the Citizens Panel.

13. RISK IMPLICATIONS

13.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives. It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified.

13.2 Failure to successfully deliver the Medium Term Financial Strategy is identified as a significant risk in the council's Strategic Risk Register.

14. RURAL IMPLICATIONS

The budget strategy impacts on the whole of the borough including rural areas.

15. CORPORATE IMPLICATIONS

The Council's financial management approach takes account of the following:

- Community Safety Implications - Considered as part of the budget strategy and currently one of the council's top 5 priority services
- Environmental Implications - Considered as part of the budget strategy
- ICT Implications - Considered as part of the budget strategy
- Asset Management Implications - Considered as part of the budget strategy
- Human Resources Implications - Considered as part of the budget strategy

16. FINANCIAL IMPLICATIONS

The principles contained within the report will set a prudent and challenging strategy for 2010/11.

17. LEGAL IMPLICATIONS

There are none arising directly from the report.

Background Papers: MTFS, Capital Programme

Contact Officer: Sanjiv Kohli, Director of Finance, ext 5607

Summary of Revenue Reserves at 31 March 2010

Description	Balance	Movement in Year		Movement in Year		Balance
	at	as per budget		Approved in Year		at
	1/4/09	In	Out	In	Out	31/3/10
	£'000	£'000	£'000	£'000	£'000	£'000
Future capital projects	448		200			248
Benefits Reserve	126					126
Local Plan Procedure	303				10	293
Historic Buildings Loan Fund	14					14
Disaster Reserve (Corporate & I T)	118					118
Building Control Reserve	32					32
Land Charges Reserve	17					17
Pensions Contribution	37	30				67
ICT Reserve	241					241
Waste Management Reserve	246					246
Development Control Fee Income	76		76			0
Project Management/Master Plan Reserve	343					343
Shared Services Reserve	74					74
Hinckley Voluntary Action Reserve	0					0
Grounds Maintenance H&S Reserve	19					19
Planning Delivery Grant Reserve	277					277
Flexible Working Reserve	110					110
IFRS Capacity Support Reserve	20					20
Web Development Reserve	60					60
Freedom of Information Training Reserve	3					3
New Performance Improvement Reserve	10					10
Corporate Services (1) Reserve Soctim	6					6
Housing Energy Cert Training Reserve	11					11
Finance Capacity Fund Reserve	20					20
Election Expenses Reserve	25	25				50
Priority Improvement Reserve	70					70
Workforce Strategy Reserve	3					3
TOTAL GF Reserves	2709	55	276	0	10	2478

FINANCE & AUDIT SERVICES SELECT COMMITTEE – 3 AUGUST 2009

**REPORT OF THE DIRECTOR OF FINANCE RE ANNUAL REPORT ON THE
TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL
INDICATORS 2008/09**

1. Purpose

The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity during 2008/09, and the actual Prudential Indicators for 2008/09.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

2. Recommendations

The Committee is recommended to:

- a) Endorse the report
 - b) Recommend that the Council
 - Approve the actual 2008/09 prudential indicators within the report.
 - Note the treasury management stewardship report for 2008/09.
-

3. Background

Introduction

This report summarises:

- the capital activity:
 - during the year;
 - what resources the Council applied to pay for this activity;
 - the resultant impact on the Council's indebtedness for capital purposes.
- the impact of this activity on the Council's underlying indebtedness (the CFR);
- the reporting of the required prudential indicators;
- overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- a summary of interest rate movements in the year;
- the detailed debt activity; and
- the detailed investment activity.

The Council's Capital Expenditure and Financing 2008/09

The Council undertakes capital expenditure on long term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.); or
- If insufficient financing is available, or a decision is taken not to apply resources, the expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below also shows how this was financed.

£'000	2007/08 Actual	2008/09 Estimate	2008/09 Actual
Non-HRA capital expenditure	3,484	4,998	4,197
HRA capital expenditure	3,170	2,513	2,522
Total capital expenditure	6,654	7,511	6,719
Resourced by:			
Capital receipts	1,328	3,001	1,756
Capital grants	1,208	1800	1,930
Capital reserves	69	0	243
Revenue	1,934	2,036	1,996
Unfinanced capital expenditure	2,115	664	794

The Council's Overall Borrowing Need

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. It represents 2008/09 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

The Non-HRA element of the CFR is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). The total CFR can also be reduced by:

- the application of additional capital resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

With effect from 1 April 2008 the CLG introduced new MRP Guidance which requires an MRP Policy to be approved by Members. The policy for 2008/09 was approved on 15 April 2008.

The Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR (£m)	31 March 2008 Actual	31 March 2009 Original Indicator	31 March 2009 Actual
Opening balance	9,580	11,436	11,440
add unfinanced capital expenditure (as above)	2,115	664	794
less MRP	258	363	363
Closing balance	11,440	11,737	11,871

Treasury Position at 31 March 2009

Whilst the Council's gauge of its underlying need to borrow is the CFR, the Director of Finance and the treasury function can manage the Council's actual borrowing position by either:

- borrowing to the CFR; or

- choosing to utilise some temporary internal cash flow funds instead of borrowing (under-borrowing); or
- borrowing for future increases in the CFR (borrowing in advance of need).

It should be noted that the accounting practice required to be followed by the Council (the SoRP), changed from the 2007/08 accounts, and required financial instruments in the accounts (debt, investments, etc.) to be measured in a method compliant with national Financial Reporting Standards. The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest.

During 2008/09 the Director of Finance managed the debt position to minimise the net cost of borrowing and in January 2009 repaid £2.5m of PWLB debt to reduce interest costs as investment returns had fallen below the cost of borrowing and therefore it was more economic to fund the Capital Financing Requirement from internal sources rather than external borrowing, and the treasury position at the 31 March 2009 compared with the previous year was:

Actual borrowing position £'000	31 March 2008		31 March 2009	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	5,800	4.64%	3,300	4.55%
Variable Interest Rate Debt	0	N/A	0	N/A
Total Debt	5,800	4.64%	3,300	4.55%
Capital Financing Requirement	11,440		11,871	
Over/(Under) borrowing	(5,640)		(8,571)	
Investment position	31 March 2008		31 March 2009	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Investments	10,126	5.7%	4,500	3.94%
Variable Interest Investments	0	N/A	0	N/A
Total Investments	10,126	5.7%	4,500	3.94%
Net borrowing position	(4,326)		(1,200)	

Prudential Indicators and Compliance Issues

Some of the prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

Net Borrowing and the CFR - In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2008/09 plus the expected changes to the CFR over 2009/10 and 2010/11. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2008 Actual	31 March 2009 Original Indicator	31 March 2009 Actual
Net borrowing position	(4,326)	1,439	(1,200)
CFR	11,440	11,527	11,871

The Authorised Limit - The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The Council does not have the

power to borrow above this level. The table below demonstrates that during 2008/09 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

Actual financing costs as a proportion of net revenue stream - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2008/09 £'000
Original Indicator - Authorised Limit	15,691
Maximum gross borrowing position	5,800
Original Indicator - Operational Boundary	11,691
Average gross borrowing position	5,383
Financing costs as a proportion of net revenue stream	-5.06%

Economic Background for 2008/09

The 2008/09 financial year has featured one of the most testing and difficult economic and investment environments since the 1930s. It has featured a number of very significant changes in the performance of the UK as well as global economy. And beneath all of this has been the undercurrent of uncertainty and mistrust in the financial markets. This was not an easy backdrop in which to manage an investment portfolio.

The year opened on an uncertain note. The ongoing effects of the “credit crunch” which had started in 2007, prompted a bout of monetary policy easing in early April when the Bank of England cut its Bank Rate by 0.25% to 5%.

But inflation was rising sharply, courtesy of the strength of global commodity and food prices and the very steep rise in oil prices. The CPI inflation measure breached the 3% upper limit of the Governments’ target range in April. The Bank was concerned that these external cost pressures could eventually transform into a domestic wage/price spiral and kick start a bout of damaging inflation.

Rates were left on hold through the summer months and there seemed to be some signs of a gradual return to slightly more normal conditions in the money markets. But this was not to last. Mid-September saw a “sea change” in financial markets and economic policies. The collapse of US investment bank, Lehman Brothers, dealt a devastating blow to the markets. Liquidity dried up almost completely making it extremely difficult for banks to function normally. These developments culminated in the failure of the entire Icelandic banking system in early October.

The failure of the Icelandic banking system had a major impact on local authority investments. A number of local authorities had deposits with Icelandic institutions and these investments are still at risk. At this point in time recovery rates have not been fully disclosed by the respective institutions, although early indicators suggest a good, albeit not 100% recovery. This Council has no investments at risk in Icelandic Banks

The crisis in the financial markets deepened and threatened a complete ‘melt-down’ of the world financial system. This, together with evidence that economies had entered recession prompted a number of significant policy changes. In the UK these featured the following:

- a major rescue package totalling as much as £400bn to recapitalise the banking system

- a series of interest rate cuts down to 2% in early December
- a fiscal expansion package, including a 2.5% cut in VAT.

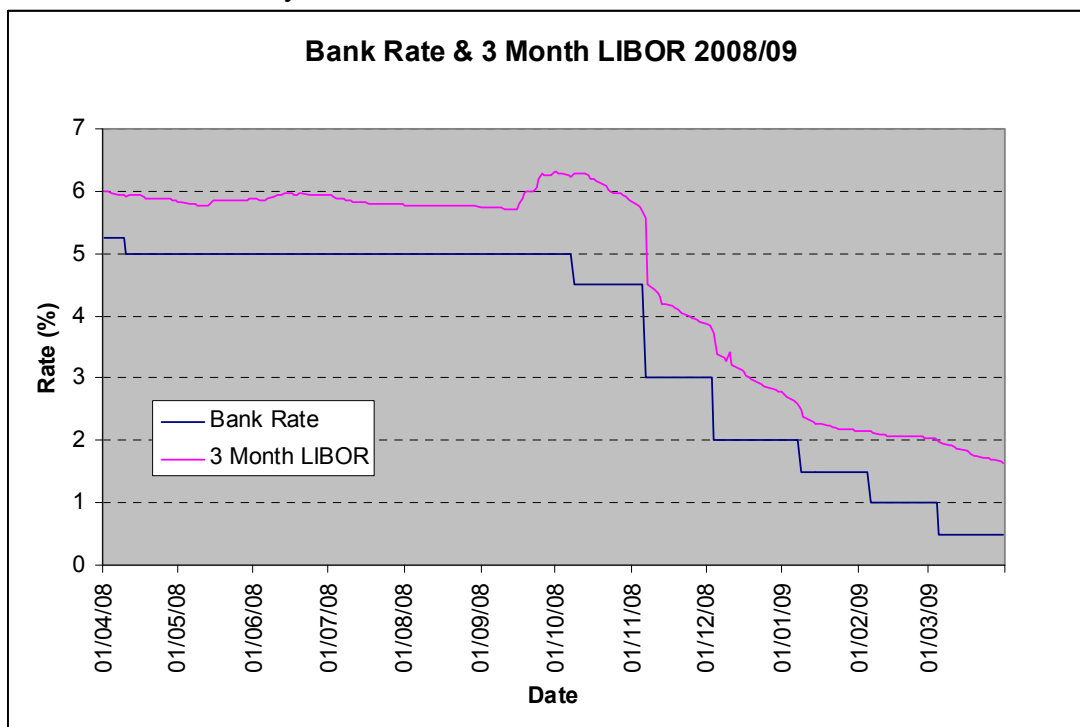
The New Year failed to herald a change in the fortunes of the banking sector. Central banks continued to ease monetary policies in an attempt to reduce borrowing rates and hence alleviate some of the cost pressures being experienced by financial institutions and, more to the point, the corporate and household sectors.

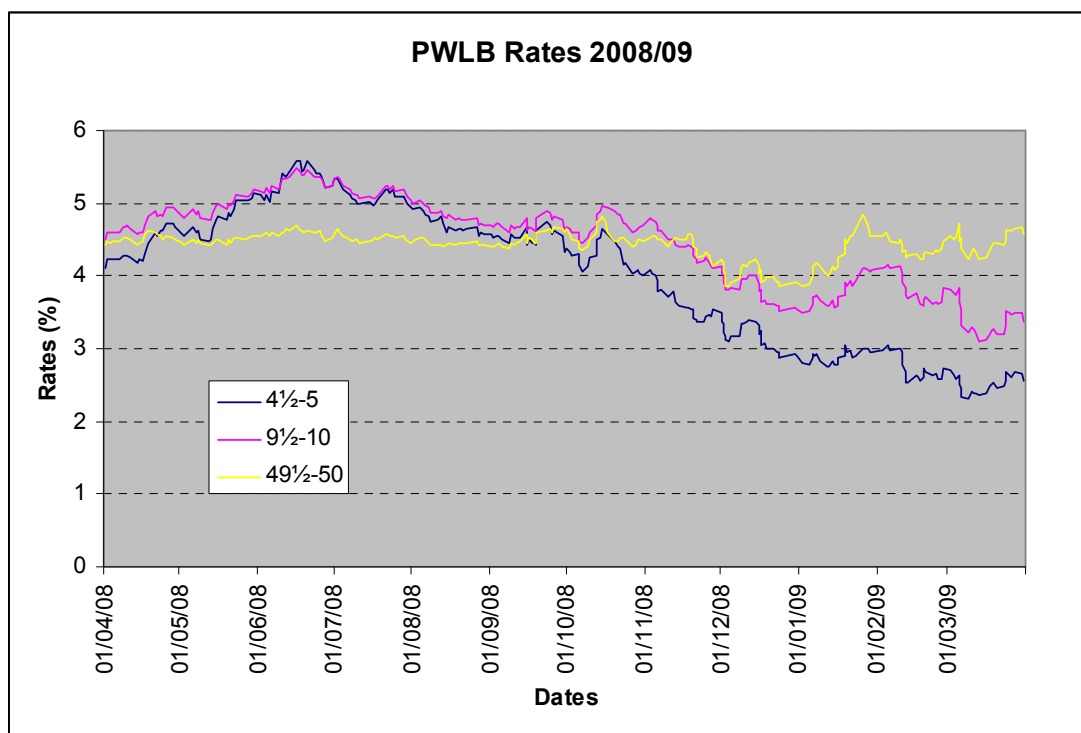
With official interest rates in the US already at close to zero at end-2008, the Bank of England was at the forefront of policy easing. Bank Rate was cut in successive monthly moves from 2% at the outset of the year to the historically low level of 0.5% in March. Thereafter, the Bank resorted to the quantitative easing of monetary policy via a mechanism of buying securities from investment institutions in exchange for cash. This commenced in early March and is expected ultimately to amount to £150bn.

Aside from Bank of England assistance, the central government launched the second phase of its support operations for the banking industry during the second half of January. This failed to allay fears that even more aid might have to be extended to the banking industry before the crisis is over. During the course of the quarter, two major banks, RBS and Lloyds Group, needed substantial cash injections; action that led the public sector to assume near-full ownership. In addition to this, the Dunfermline Building Society was rescued from bankruptcy.

The problems of the financial markets since late 2007 had clearly spread to other parts of the economy. Economic data confirmed that the UK was in deep recession and the latest Bank of England Inflation Report (published in mid-February) registered a marked change in official forecasts for 2009 and 2010. Economic activity was expected to decline sharply (GDP was forecast to contract by more than 4% in 2009) and inflation was projected to fall into negative territory

The generally uncertain backdrop to the UK and the financial markets prevented a marked easing in overall money market liquidity. While the situation did show some signs of improving as the financial year drew to a close, the margin between official interest rates and those quoted in the inter-bank market for periods longer than 1-month remained very wide.





The Strategy Agreed for 2008/09

The strategy provided for 2008/09 expected that if borrowing was to be undertaken then it would be at a time when the Director of Finance considered that it would be most beneficial in terms of periods and interest rates available at the time and taking into account future trends and investments would be maintained in such a manner as to maximise income subject to the overriding constraints of security and liquidity

Actual debt management activity during 2008/09

Repayment - On 28 January 2009 the Council repaid £2.5m at an average rate of 4.75% with breakage costs of £53,000 using investment balances

Summary of Debt Transactions – The overall position of the debt activity resulted in a fall in the average interest rate by 0.09%, representing a net General Fund savings of £2,970 p.a.

Investment Position

Investment Policy – The Council’s investment policy is governed by ODPM (now CLG) Guidance, which has been implemented in the annual investment strategy approved by Council on 15 April 2008. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – The Council’s longer term cash balances comprise primarily revenue and capital resources, although these will be influenced by cash flow considerations. The Council’s core cash resources comprised as follows, and meet the expectations of the budget:

Balance Sheet Resources (£000)	31 March 2008	31 March 2009
Balances	3,053	3,181
Earmarked reserves	3,209	2,806
Provisions	312	157
Usable capital receipts	7,580	5,922
Total	14,152	12,066

Investments Held by The Council - The Council maintained an average balance of £15.667m of internally managed funds. The internally managed funds received an average return of 5.4%. The comparable performance indicator is the average 7-day LIBID rate, which was 3.57%.

The Economic Background for 2008/09 set out the deterioration in economic conditions during this period. As a result of the deterioration, interest rates fell impacting adversely on investment returns. As a result of the economic situation, the security of banks was called into question, as shown by falling credit ratings for the majority of financial institutions. This increased counterparty credit risk resulted in the Council moving to a net investment position (i.e. repaying debt which reduced investments). As a result the expected principal balances were not as high as originally forecast.

Performance Indicators set for 2008/09

This service has set the following performance indicator

- *Investments – Internal returns above the 7 day LIBID rate*

As can be seen from the paragraph above the Council achieved an average rate of return on its investments of 5.4% as against a 7 day LIBID rate of 3.57%. The Council was helped to achieve this rate of return by the fact that in the early part of the year investments were made for the maximum period of time deemed reasonable given cashflow requirements with a number of “core” investments being made for 364 days which meant that the Council was insulated from the falls in interest rates for some time. As investments matured the impact of the increased counterparty risk was taken into account and investments were made for significantly shorter periods and with more creditworthy institutions, which will have a double impact in that shorter term investments normally yield lower returns and higher rated institutions also pay a lower rate of interest as their risk of default is lower and therefore the risk premium they have to pay is lower. It should be noted that whilst the credit ratings of banks and other financial institutions have been lowered by the agencies over the last year or so the criteria that the Council has adopted to include counterparties on the approved list has remained the same so that a number of institutions have either been removed from the list altogether or have had their limits reduced as regards the amount the Council will lend to them or the period over which the loan will be made. The Council will only lend to institutions that have what is generally accepted to be high credit ratings or are known to be secure due to the regulatory framework they operate within.

Regulatory Framework, Risk and Performance

The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2007/08);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.

- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

4. Financial Implications

These are contained in the body of the report

5. Legal Implications

There are none

6. Corporate Plan Implications

This report will provide input to all Corporate Aims

7. Consultation

None

8. Risk Implications

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

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

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

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

9. Rural Implications

There are none

10. Corporate Implications

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

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

Background Papers: Civica Authority Financials Reports and Statement of Accounts
Working Papers

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A Borough to be proud of

Hinckley & Bosworth
Borough Council

Finance and Audit Services Select Committee Work Programme 2009/2010

ISSUE 2009/02: August 2009

FINANCE AND AUDIT SERVICES SELECT COMMITTEE WORK PROGRAMME 2009/2010

1. Internal Audit Work Programme

- Consider each Internal Audit Block and recommendations and ensure that recommendations are implemented and followed up

2. Financial and Budget Monitoring

- Final Accounts 2007/08 (June 2009)
- Budget Strategy 2010/11 (August 2009)
- Quarterly Budget Monitoring (August & October 2009, February & June 2010)
- Capital Programme 2009/10 to 2012/13 (December 2009)
- Budget Proposals (February 2010)
- Final Council Tax Report (February 2010)
- Prudential Indicator Report (March 2010)
- Treasury management Report (March 2010)

3. Corporate Management

- Risk Management (June & December 2009)
- Annual Audit Plan (June 2009)
- ISA260 Annual Audit Letter (September 2009)
- Annual Audit and Inspection Letter (April 2010)

FINANCE AND AUDIT SERVICES SELECT COMMITTEE

Timetable

Finance and Audit Services Select Committee – Monday 3 August 2009					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics	Budget Strategy 2010/11	Ensure value for money and transparency in the process	Ensure the Executive delivers good value and services	All Corporate Aims	Director of Finance / Executive Member
	Quarterly monitoring of Medium Term Financial Strategy	Request of Select Committee	Ensure Members are aware of current issues with regard to the budget	Thriving Economy	Director of Finance/ Accountancy Manager
Performance Management Information	Treasury Management Annual report	Meet CIPFA requirements	Maintain awareness of the Council's financial position	All Corporate Aims	Director of Finance / Executive Member
	Audit Block 1	Ensure that findings are considered	Recommendations are implemented	All Corporate Aims	Director of Finance / Internal Audit
Tracking of implementation with previous recommendations					
Committee Management Issues	Work Programme 2009/10	To review the Select Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman

Finance and Audit Services Select Committee – Monday 14 September 2009					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics	Commercial Estates Review – 6-monthly update	Request of Select Committee	To ensure performance of the Council's Commercial Estates Portfolio	Thriving Economy	Director of Finance/ Estates & Asset Manager
Performance Management Information	Budget Monitoring 1 st Quarter 2009/10	Ensure Value for Money	Ensure Executive delivers good value improving services	All Corporate Aims	Director of Finance/ Accountancy Manager
	Audit Block 2	Ensure that findings are considered	Recommendations are implemented	All Corporate Aims	Director of Finance/ Internal Audit
	ISA 260 Report	Review work of External Auditors	Ensure matters raised by External Auditors are considered by Members	All Corporate Aims	Director of Finance
Tracking of implementation with previous recommendations					
Committee Management Issues	Work Programme 2009/10	To review the Select Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman

Finance and Audit Services Select Committee – Monday 26 October 2009					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics					
Performance Management Information	Audit Block 3	Ensure that findings are considered	Recommendations are implemented	All Corporate Aims	Director of Finance/ Internal Audit
	Quarterly monitoring of Medium Term Financial Strategy	Request of Select Committee	Ensure Members are aware of current issues with regard to the budget	Thriving Economy	Director of Finance/ Accountancy Manager
	Budget Monitoring 2 nd Quarter 2009/10	Ensure Value for Money	Ensure the Executive delivers good value improving services	All Corporate Aims	Director of Finance/ Accountancy Manager
Tracking of implementation with previous recommendations					
Committee Management Issues	Work Programme 2009/10	To review the Select Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman

Finance and Audit Services Select Committee – Monday 7 December 2009					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics					
Performance Management Information	Audit Block 4	Ensure findings are considered	Recommendations are implemented	All Corporate Aims	Director of Finance/ Internal Audit
	Capital Programme 2009/10 to 2012/13	Backbench input to Capital Programme	Ensure the Executive provides good value improving services	All Corporate Aims	Director of Finance/ Accountancy Manager
	Risk management progress report	To provide update on Risk management activities in the Council	To ensure Risk management stays embedded in the Council	All Corporate Aims	Principal Performance and Risk Management Officer
Tracking of implementation with previous recommendations					
Committee Management Issues	Work Programme 2009/10	To review the Select Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman

Finance and Audit Services Select Committee – Monday 1 February 2010					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics					
Performance Management Information	Audit Block 5	Ensure findings are considered	Recommendations are implemented	All Corporate Aims	Director of Finance/ Internal Audit
	Revenue Budget and Council Tax Proposals 20010/11	Ensure Value for Money and allow backbench input into the Budget and Council Tax setting process	Ensure the Executive delivers good value improving services	All Corporate Aims	Director of Finance/ Accountancy Manager
	Quarterly monitoring of Medium Term Financial Strategy	Request of Select Committee	Ensure Members are aware of current issues with regard to the budget	Thriving Economy	Director of Finance/ Accountancy Manager
	Budget Monitoring 3 rd quarter 2009/10	Ensure Value for Money	Ensure the Executive Delivers good value improving services	All Corporate Aims	Director of Finance/ Accountancy Manager
Tracking of implementation with previous recommendations					
Committee Management Issues	Work Programme 2009/10	To review the Select Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman

Finance and Audit Services Select Committee – Monday 1 March 2010					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics					
Performance Management Information	Audit Block 6	Ensure findings are considered	Recommendations are implemented	All Corporate Aims	Director of Finance/ Internal Audit
	Prudential Indicators and Treasury management Report	Ensure value for Money	Ensure the Executive delivers good value improving Services	All Corporate Aims	Director of Finance/ Accountancy Manager
Tracking of implementation with previous recommendations					
Committee Management Issues	Work Programme 2009/10	To review the Select Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman

Finance and Audit Services Select Committee – Monday 12 April 2010					
Function	Activity/ Objective	Reason	Desired Outcome	Vision, Values and Aims	Responsible (member/officer)
Scrutiny Topics					
Performance Management Information	Audit Block 7	Ensure findings are considered	Recommendations are implemented	All Corporate Aims	Director of Finance/ Internal Audit
	Internal Audit Annual Report	To provide assessment of internal control	Assurance of internal control and risk management	All Corporate Aims	Director of Finance/ Internal Audit
	Annual Audit and Inspection Letter	Review work of External Auditors	Matters reported by External Auditors are considered by Elected members	All Corporate Aims	Director of Finance
Tracking of implementation with previous recommendations					
Committee Management Issues	Work Programme 2009/10	To review the Select Committee's workload	To ensure timely consideration of reports and consistency of distribution of workload	All Corporate Aims	Accountancy Manager/ Chairman