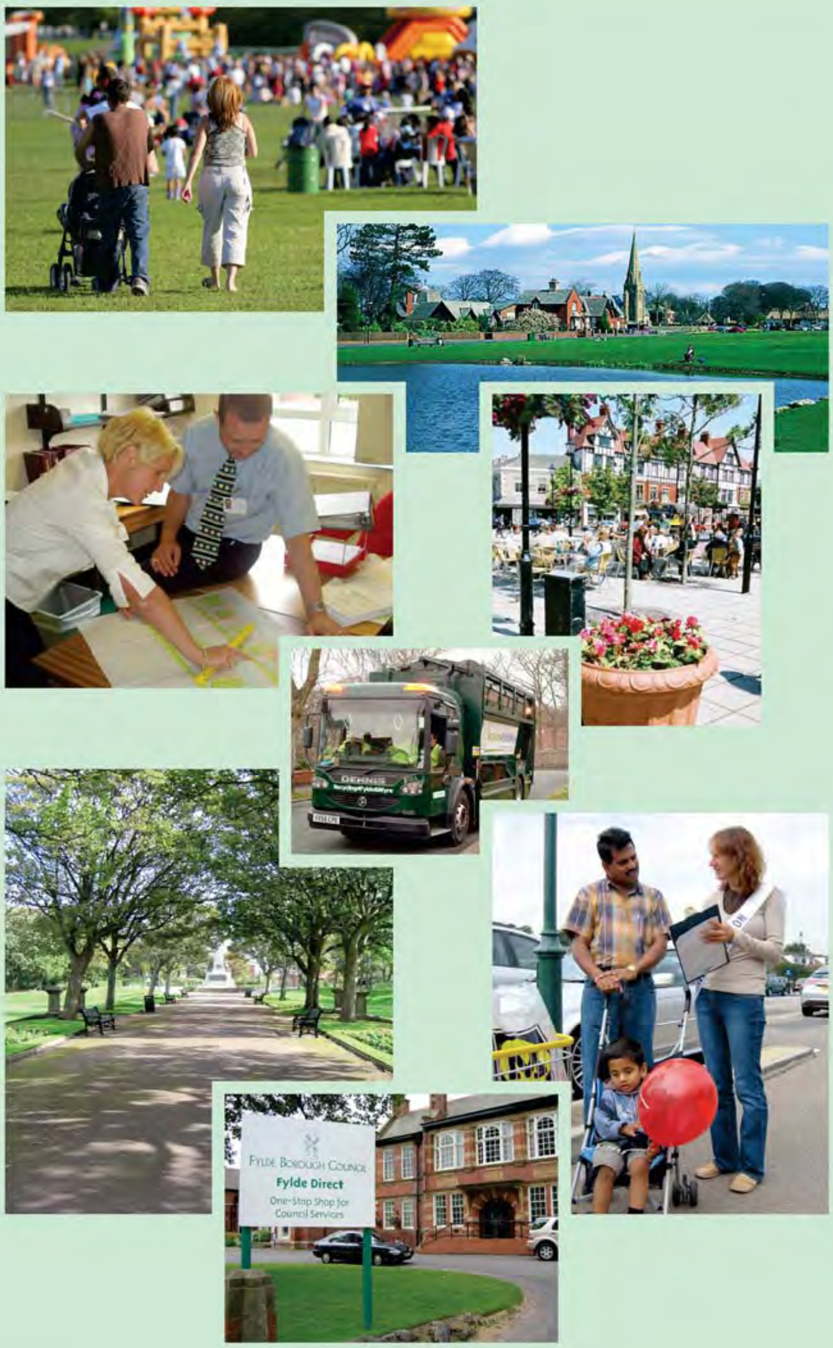
FYLDE BOROUGH COUNCIL



Meeting Agenda

Audit Committee
Town Hall, St Annes
Wednesday 8 December 2010, 7:00p.m.

The main doors to the Town Hall will be open to the public at 6:45pm

The maximum capacity for this meeting room is 60 persons –
once this limit is reached no other person can be admitted.

AUDIT COMMITTEE

MEMBERSHIP

CHAIRMAN - Councillor John Singleton
VICE-CHAIRMAN – Councillor Linda Nulty

Councillors

Ben Aitken	Paul Rigby
Christine Akeroyd	Janine Owen
Louis Rigby	Elizabeth Oades
Keith Hyde	Louis Rigby

Contact: Lyndsey Lacey, St. Annes (01253) 658504, Email:
lyndseyl@fylde.gov.uk

FYLDE BOROUGH COUNCIL

working together for excellence

Our Vision

Fylde Borough Council will work with partners to provide and maintain a welcoming, inclusive place with flourishing communities.

Our Corporate Objectives

- To Promote the Enhancement of the Natural & Built Environment
- To Promote Cohesive Communities
- To Promote a Thriving Economy
- To meet the Expectations of our Customers

The Principles we will adopt in delivering our objectives are:

- To ensure our services provide value for money
- To work in partnership and develop joint working

FYLDE BOROUGH COUNCIL

working together for excellence

A G E N D A

PART I - MATTERS DELEGATED TO COMMITTEE

ITEM	PAGE
1. **DECLARATIONS OF INTEREST:** *If a member requires advice on Declarations of Interest he/she is advised to contact the Monitoring Officer in advance of the meeting. (For the assistance of Members an extract from the Councils Code of Conduct is attached).*	4
2. **CONFIRMATION OF MINUTES:** *To confirm as a correct record the minutes of the Audit Committee held on 23 September 2010. As attached at the end of the agenda.*	4
3. **SUBSTITUTE MEMBERS:** *Details of any substitute members notified in accordance with council procedure rule 25.3*	4
4. **MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2010/11**	7

Personal interests

8.—(1) You have a personal interest in any business of your authority where either—

(a) it relates to or is likely to affect—

(i) any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your authority;

(ii) any body—

(aa) exercising functions of a public nature;
(bb) directed to charitable purposes; or
(cc) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union),

of which you are a member or in a position of general control or management;

(i) any employment or business carried on by you;
(ii) any person or body who employs or has appointed you;
(iii) any person or body, other than a relevant authority, who has made a payment to you in respect of your election or any expenses incurred by you in carrying out your duties;
(iv) any person or body who has a place of business or land in your authority's area, and in whom you have a beneficial interest in a class of securities of that person or body that exceeds the nominal value of £25,000 or one hundredth of the total issued share capital (whichever is the lower);
(v) any contract for goods, services or works made between your authority and you or a firm in which you are a partner, a company of which you are a remunerated director, or a person or body of the description specified in paragraph (vi);
(vi) the interests of any person from whom you have received a gift or hospitality with an estimated value of at least £25;
(vii) any land in your authority's area in which you have a beneficial interest;
(viii) any land where the landlord is your authority and you are, or a firm in which you are a partner, a company of which you are a remunerated director, or a person or body of the description specified in paragraph (vi) is, the tenant;
(xi) any land in the authority's area for which you have a licence (alone or jointly with others) to occupy for 28 days or longer; or

(b) a decision in relation to that business might reasonably be regarded as affecting your well-being or financial position or the well-being or financial position of a relevant person to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward, as the case may be, affected by the decision;

(2) In sub-paragraph (1)(b), a relevant person is—

(a) a member of your family or any person with whom you have a close association; or
(b) any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
(c) any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
(d) any body of a type described in sub-paragraph (1)(a)(i) or (ii).

Disclosure of personal interests

9.—(1) Subject to sub-paragraphs (2) to (7), where you have a personal interest in any business of your authority and you attend a meeting of your authority at which the business is considered, you must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.

(2) Where you have a personal interest in any business of your authority which relates to or is likely to affect a person described in paragraph 8(1)(a)(i) or 8(1)(a)(ii)(aa), you need only disclose to the meeting the existence and nature of that interest when you address the meeting on that business.

(3) Where you have a personal interest in any business of the authority of the type mentioned in paragraph 8(1)(a)(viii), you need not disclose the nature or existence of that interest to the meeting if the interest was registered more than three years before the date of the meeting.

(4) Sub-paragraph (1) only applies where you are aware or ought reasonably to be aware of the existence of the personal interest.

(5) Where you have a personal interest but, by virtue of paragraph 14, sensitive information relating to it is not registered in your authority's register of members' interests, you must indicate to the meeting that you have a personal interest, but need not disclose the sensitive information to the meeting.

(6) Subject to paragraph 12(1)(b), where you have a personal interest in any business of your authority and you have made an executive decision in relation to that business, you must ensure that any written statement of that decision records the existence and nature of that interest.

(7) In this paragraph, "executive decision" is to be construed in accordance with any regulations made by the Secretary of State under section 22 of the Local Government Act 2000(**d**).

Prejudicial interest generally

10.—(1) Subject to sub-paragraph (2), where you have a personal interest in any business of your authority you also have a prejudicial interest in that business where the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest.

(2) You do not have a prejudicial interest in any business of the authority where that business—

(a) does not affect your financial position or the financial position of a person or body described in paragraph 8;
(b) does not relate to the determining of any approval, consent, licence, permission or registration in relation to you or any person or body described in paragraph 8; or
(c) relates to the functions of your authority in respect of—

(i) housing, where you are a tenant of your authority provided that those functions do not relate particularly to your tenancy or lease;
(ii) school meals or school transport and travelling expenses, where you are a parent or guardian of a child in full time education, or are a parent governor of a school, unless it relates particularly to the school which the child attends;
(iii) statutory sick pay under Part XI of the Social Security Contributions and Benefits Act 1992, where you are in receipt of, or are entitled to the receipt of, such pay;
(iv) an allowance, payment or indemnity given to members;
(v) any ceremonial honour given to members; and
(vi) setting council tax or a precept under the Local Government Finance Act 1992.

Prejudicial interests arising in relation to overview and scrutiny committees

11.— You also have a prejudicial interest in any business before an overview and scrutiny committee of your authority (or of a sub-committee of such a committee) where—

(a) that business relates to a decision made (whether implemented or not) or action taken by your authority's executive or another of your authority's committees, sub-committees, joint committees or joint sub-committees; and
(b) at the time the decision was made or action was taken, you were a member of the executive, committee, sub-committee, joint committee or joint sub-committee mentioned in paragraph (a) and you were present when that decision was made or action was taken.

Effect of prejudicial interests on participation

12.—(1) Subject to sub-paragraph (2), where you have a prejudicial interest in any business of your authority—

(a) you must withdraw from the room or chamber where a meeting considering the business is being held—
(i) in a case where sub-paragraph (2) applies, immediately after making representations, answering questions or giving evidence;
(ii) in any other case, whenever it becomes apparent that the business is being considered at that meeting;

unless you have obtained a dispensation from your authority's standards committee;

(b) you must not exercise executive functions in relation to that business; and
(c) you must not seek improperly to influence a decision about that business.

(2) Where you have a prejudicial interest in any business of your authority, you may attend a meeting (including a meeting of the overview and scrutiny committee of your authority or of a sub-committee of such a committee) but only for the purpose of making representations, answering questions or giving evidence relating to the business, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.

REPORT

FYLDE BOROUGH COUNCIL

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	**AUDIT COMMITTEE**	**8th DECEMBER 2010**	**4**

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2010/11

Public Item

This item is for consideration in the public part of the meeting.

Summary

This report is a mid year review of Treasury Strategy and Prudential Indicators for Audit Committee to scrutinize in line with the recommendations of the revised CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management.

Recommendation

Recommendations

1. The Audit Committee is recommended to note the Mid Year Prudential Indicators and Treasury Management Monitoring Report and recommend the following changes to Council:-

i) Approve the revised Prudential Indicators and Limits

ii) Approve the revised investment criteria (Section 5.3)

Reasons for recommendation

The revised Code of Practice requires Members to receive a Mid Year Treasury report and scrutinize the strategy and Prudential Indicators.

Alternative options considered and rejected

No alternative options exist.

Cabinet Portfolio

The item falls within the following Cabinet portfolio: Finance & Resources – Councillor Karen Buckley.

Report

1. Introduction

Revisions to the regulatory framework of Treasury Management during 2009 introduced a requirement for the Council to receive a Mid Year Treasury Review, in addition to the forward looking Annual Treasury Strategy and backward looking Annual Treasury Report.

The underlying purpose of the new report is in line with the recommendations of the revised CIPFA Code of Practice on Treasury Management. The revised Code of Practice requires Members to receive reports and scrutinize the Treasury Management service.

As this is the first Mid Year Prudential Indicators & Treasury Management report, and in order to assist with the terminology and explanations included within the report, Appendix A sets out a number of Treasury Management & Prudential Indicators Frequently Asked Questions.

2. Key Prudential Indicators

The Prudential Indicators were originally approved by Council on 1st March 2010. As changes arise during the year some of the Prudential Indicators need to be revised. The Prudential Indicators in this report will be taken to Council for approval on 24th January 2011. The current position for figures in the report reflects the treasury activity up to 30th September 2010.

2.1 Capital Expenditure

Table 1 shows the revised forecast capital expenditure as reported in the Financial Forecast Update (Including Revenue, Capital and Treasury Management) 2010/11 to 2014/15 to Council on 22nd November 2010 as compared to the capital expenditure originally approved by Council.

Table 1 Forecast Capital Expenditure

Forecast Capital Expenditure	2010/11 Original Indicator £M	2010/11 Latest Estimate £M
Total	8.9	7.1

The above table shows the forecast capital expenditure on new projects. The Town Hall Accommodation Project has been revised and as a result the amount of forecast capital expenditure has reduced.

2.2 Capital Financing Requirement (CFR)

Table 2 shows the CFR which is the total of all of the Council's capital assets (existing and planned) less all of the Councils' capital reserves. This is the amount of capital expenditure that the Council has still to finance. The CFR is normally financed by external borrowing. The Council has borrowed £3.5M (see section 3.1), and there is a requirement to finance a further £2M.

Table 2 Capital Financing Requirement (CFR)

	2010/11 Original Indicator £M	2010/11 Latest Estimate £M
Total CFR	5.7	5.5

2.3 Net Borrowing

The CFR determines the amount that the Council needs to borrow for a capital purpose. The term Net borrowing is borrowings less investments. Net borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2010/11 and next two financial years. This gives the Council some headroom to borrow early for a capital purpose in order to secure low interest rates.

There are no difficulties anticipated in keeping the long term capital borrowing below the CFR. Revenue borrowing will be incurred for short periods in line with cash flow requirements.

Table 3 Net Borrowing

	2010/11 Original Indicator £M	2010/11 Revised Indicator £M
Long Term Borrowing (Capital)	4.8	5.5
Short Term Borrowing (Revenue)	1.5	1.5
Gross Borrowing	6.3	7.0
Investments	(0)	(0)
Net borrowing	6.3	7.0
CFR	5.7	5.5

The Gross Borrowing amount has been increased by £0.7M to include approved capital schemes that have been added to the Capital Programme and are funded by Prudential Borrowing. The cost of borrowing for these schemes has been included in previously approved revenue budgets. Unfortunately, in error these schemes have not been included within the original gross borrowing amount for 2010/11. This has no impact on the Council's revenue budget position.

2.4 Operational Boundary & Authorised Limit

A further two Prudential Indicators control the overall level of borrowing. These are:

- The Authorised Limit for External Debt
- The Operational Boundary for External Debt

The Authorised Limit for External Debt is a further key Prudential Indicator that controls the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

The expected maximum debt position during each year represents the Operational Boundary Prudential Indicator, and so may be different from the year end position.

Table 4 Operational Boundary & Authorised Limit for External Debt

	2010/11 Original Indicator £M	2010/11 Current Position £M	2010/11 Revised Indicator £M
Gross Borrowing	6.3	3.5	7.0
Other Long Term Liabilities*	0.2	0	0
Operational Boundary	**6.5**	**3.5**	**7.0**
Contingency	4.5	n/a	4.5
Authorised Limit	**11.0**	n/a	**11.5**

* Provisions

The Operational Boundary and Authorised Limit have been revised in line with the increases to the Gross Borrowing outlined in section 2.3.

The Authorised Limit includes £4.5M for ‘contingency’ which is an amount that has been estimated to provide scope to undertake short-term borrowing in the event of a service delivery failure or emergency, eg. failure to collect council tax income.

2.5 Interest Rate Forecast

Bank Base Rate was held at its record low of 0.5% in spite of above target inflation. There is evidence of a recovery in activity in most industrialised economies.

Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy is likely to remain slow. The danger of a double-dip recession is fading but the crisis in the euro-zone, the prospects of tight economic policies at home and weak consumer confidence means that the threat has not evaporated completely.

Table 5 Medium-Term Rate Estimates

Annual Average	Bank Rate	Investment Rates		Borrowing Rates (PWLB)		
		3 month	1 year	5 year	20 year	50 year
2010/11	0.5	0.7	0.7	2.7	4.6	4.7
2011/12	0.9	1.3	1.1	3.4	5.5	5.6
2012/13	1.8	2.5	2.0	4.4	5.6	5.7
2013/14	3.0	3.5	3.2	4.9	5.7	5.8
2014/15	4.0	4.2	4.2	5.7	5.9	6.0
2015/16	4.0	4.2	4.2	5.4	5.7	5.7

3 Treasury Strategy 2010/11

3.1 Debt Activity during 2010/11

The Council currently has long-term debt of £3.5M at an average rate of 3.45%. The debt maturity profile is shown in Appendix B.

No new long term borrowing has been undertaken as yet in 2010/11. The Council has a £1M loan that will expire in March 2011. This loan will need replacing with an equivalent loan in order to finance the historic capital spend of the Council.

The Council also has a new borrowing requirement in 2010/11 of £2M based on Prudential Borrowing that has been approved as part of the Capital Programme. The CFR of £5.5M (See Table 2) includes this Prudential borrowing, and the cost of borrowing a further £2M has already been included within revenue budgets.

The Council's treasury advisors Sector will advise on the timing and type of borrowing.

As part of the Chancellor's announcements on the Comprehensive Spending Review (CSR), the Public Works Loan Board (PWLB) rates have been permanently increased by an average of 1% above the Government's cost of borrowing with effect from 20 October 2010.

This action was totally unforeseen by Local Authorities, advisers and the financial markets in general. This will mean that when the Council needs to borrow, it will need to consider the rates being offered by other lenders in the money market and compare them to the rates offered by PWLB. It may ultimately mean that the cost of borrowing to the Council increases.

3.2 Investment Strategy 2010/11

The primary objective of the Council's investment strategy is the safeguarding of the principal and interest of its investments. The investment return is a secondary objective. Due to the economic background outlined in section 3.5, the current investment climate is uncertain and there is a risk of counterparty failure. As a result of these concerns, officers continue to implement an operational investment strategy which tightens the controls already in place in the approved investment strategy. Officers may change the operational investment strategy on a daily basis in order to respond to the changes and risks presented by the investment environment. The current operational investment strategy is below:-

- Fixed money market investments are restricted to two weeks. This excludes call accounts and deposit accounts which are highly liquid and can be withdrawn immediately .

- All investments are authorised by the Section 151 Officer (Fylde) or Section 151 Officer (Preston)

- Investments over and above the Council limits may be approved by the Section 151 Officer (Fylde) or Section 151 Officer (Preston). For example, this is when the Council has no approved counterparties available in the money markets to place investments with, so the funds may be retained for short periods in the Council's own deposit accounts at a higher level than the Council approved limit.

The Council held £7.6M of investments at 30/09/10 (see Table 6). It is expected that the Council will have no inhouse investments at the financial year end. The allocation of investments as at 30/09/10 is shown in Table 6.

Table 6 Investment Position at 30/09/10

Investments	Current Position £M	Actual Return %	Benchmark Return* %
Lancashire County Council Call Account	4.5	0.70	0.23
RBS Deposit Account	2.0	0.70	0.23
HSBC Deposit Account	1.1	0.25	0.23
Total Investments	7.6		

*Benchmark return is 7 day LIBID (London InterBank Bid Rate)

4. Treasury Indicators

4.1 Benchmarks

The revised Treasury Code of Practice introduced benchmarks for security, liquidity, and yield benchmarks. These benchmarks are not limits and so may be breached depending on the movement in interest rates.

- Security benchmark – this is a percentage based on the historic risk of default of counterparties and was set at 0.03% which was based on the Council's minimum long-term rating criteria which is a rating of 'A'. There have been no defaults of the Council's counterparties.

Since this benchmark was introduced more up to date default information has been published by the three UK ratings agencies (Fitch/Moody's/Standard & Poor's) and this indicates that there have been a higher level of counterparty defaults during the banking crisis. The basis of the benchmark has therefore moved and the new benchmark is proposed as 0.07%.

The purpose of reporting this benchmark is to demonstrate that the Council invests with highly rated institutions who do not normally default on their obligations.

- Liquidity benchmark – the Council set a benchmark to adhere to short term borrowing to £1.5M and maintain short term liquid deposits of £1M available within a week's notice. The liquidity arrangements have been maintained within this benchmark during the year.

- Yield – the benchmark for returns on investments is the 7 day LIBID (London Interbank Bid Rate). The returns to date are detailed within Table 8.

4.2 Limits on Rate Exposure

There are four treasury Prudential Indicators whose purpose is to manage risk and reduce the impact of an adverse movement in interest rates. The indicators are:

- Upper limits on fixed interest rate exposure – This indicator identifies a maximum limit for fixed interest rates based upon the debt position.
- Upper limits on variable interest rate exposure –Similar to the previous indicator this covers a maximum limit on variable interest rates.
- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for an early sale of an investment, and are based on the availability of funds. The limit is set as zero as the Council has no plans to invest funds for over one year.
- Maturity structure of borrowing – These limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing at the same time.

The indicators relating to debt have been revised in Table 7 in line with the changes to the Operational Boundary detailed in Section 2.4.

Table 7 Interest Rate Exposures & Maximum Principal Sums invested >364 days

	2010/11 Original Indicator £M	2010/11 Revised Indicator £M
Limits on fixed interest rates based on debt	6.3	7.0
Limits on variable interest rates based on debt (50% of debt)	3.2	3.5
Principal sums invested > 364 days (50% of long-term investments)	0	n/a

Table 8 Maturity Structure of Fixed Interest Rate Borrowing 2010/11

	2010/11 Original Indicator	2010/11 Revised Indicator	2010/11 Current Position
Under 12 months	20%	30%	29%
12 months to 2 years	100%	100%	0%
2 years to 5 years	100%	100%	43%
5 years to 10 years	100%	100%	29%
10 years and above	100%	100%	0%

The Indicators in Table 8 have been revised to allow sufficient headroom for new borrowing. When undertaking new borrowing, officers and advisers will consider the maturity profile of the debt portfolio, and will endeavour to spread the maturity dates of loans.

4.3 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the financing cost (interest payable less interest receivable) as a percentage of the net revenue stream as shown in Table 11.

Table 9 Ratio of Financing Costs to Net Revenue Stream

	2010/11 Original Indicator	2010/11 Current Position
Ratio	2%	2%

4.4 Revisions to the Investment Strategy

The Council has placed reliance upon the inclusion of some institutions that are an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008. This was a scheme that was launched at the height of the credit crisis to allow institutions access to liquidity from the Bank of England and guaranteed funding if needed. The Eligible Institutions included the Royal Bank of Scotland and Lloyds TSB which are part Government owned, but would otherwise have been removed from the Council's Lending List due to poor individual credit ratings.

There is potential for the Government to end the HM Treasury Credit Guarantee Scheme as new liquidity and capital arrangements are being introduced and institutions are being subjected to more onerous testing. If the scheme is to end, the credit quality of the Eligible Institutions could be monitored through the short, long and support criteria embodied in the main credit rating criteria.

Therefore, it is proposed to adjust the investment counterparty criteria as follows:

- The investment criteria will allow institutions originally deemed Eligible Institutions, included under the terms of the HM Treasury Credit Guarantee Scheme (initially announced on 13 October 2008), even though the ability of Eligible Institutions to issue new guaranteed debt has ceased. Counterparty

4.5 Treasury Advisors

The Council's appointed treasury advisors were Butlers. On 25th October 2010 Sector acquired the business of Butlers. Sector is the largest provider of treasury advice in the public sector.

The Council have been assured that there will be no affect in the scope and quality of the advisory service provided following transfer to Sector.

4.6 Treasury Management Manual

The Treasury Management Manual is a document that sets out the procedures and practices that are in place for the Treasury Management function within the Council. It is held in the Accountancy section and is being been updated to ensure compliance with the revised Treasury Code of Practice that was adopted by Council on 1st March 2010.

5. Impact Statement

5.1 Sound financial advice and assistance is vital to deliver the Council's priorities.

6. Risk Assessment

6.1 If recommendations are not approved by Audit Committee, the Council will not be complying with the revised Code of Practice on Treasury Management.

7. Conclusion

The underlying economic environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with high quality counterparties. The downside of such a policy is that investment returns remain low.

Report Author	Tel	Date	Doc ID
Joanna Scott (Section 151 Officer)	(01253) 658528	November 2010	

List of Background Papers

Name of document	Date	Where available for inspection
Medium Term Financial Strategy Including General Fund, Capital Programme & Treasury Management report	01.03.10	Minutes of Council Meeting 01/03/10
Capital Programme 2nd Quarter Update 2010/11	30.09.10	Accountancy Services Town Hall
Butlers/Sector Interest Forecasts	October 2010	Accountancy Services Town Hall

Attached documents

Appendix A – Treasury Management & Prudential Indicators Frequently Asked Questions
Appendix B – Fylde Borough Council Long Term Debt Maturity Profile

IMPLICATIONS	
Finance	Contained within the body of the report
Legal	N/A
Community Safety	N/A
Human Rights and Equalities	N/A
Sustainability and Environmental Impact	N/A
Health & Safety and Risk Management	N/A

Appendix A

Treasury Management & Prudential Indicators Frequently Asked Questions

1. What is the difference between capital expenditure and capital financing requirement?

   The Capital Expenditure is the forecast expenditure on new capital projects in line with the Capital Programme. It excludes all of the Council's existing capital assets, eg. Land, buildings, vehicles, etc.

   The Capital Financing Requirement (CFR) is the Council's capital assets (existing and planned) less all of the Councils' capital reserves. Hence, capital spend less reserves. This is the amount of capital expenditure that the Council has still to finance. The CFR is normally financed by external borrowing.

2. What does the term 'financing' mean?

   The term 'financing' does not refer to the payment of cash but the resources that will be applied to ensure that the capital payment amounts is dealt with over the longer term. A number of financing options are available to Councils:-

   - capital receipts (eg. sale of land or buildings)
   - contribution from revenue expenditure
   - capital grant
   - contribution from a third party
   - borrowing

3. Does the Council link long term loans to particular capital assets/projects?

   The Council does not associate loans with particular capital assets/projects. The Council will, at any point in time, have a number of cashflows both positive and negative and will be managing its position in terms of its borrowings and investments in accordance with its treasury management strategy and practices. This is best practice in line with the CIPFA Prudential Code.

4. What does the term 'net borrowing should not exceed the total of the CFR' mean?

   The CFR determines the amount that the Council needs to borrow for a capital purpose. Net borrowing will remain below the CFR to ensure that the Council is only borrowing for a capital purpose. The Council is permitted to borrow in advance for a capital purpose over the medium term. The term 'total of the CFR' is the CFR of the current year plus increases in the CFR of the previous financial year and next two financial years. In other words, the total of the Council's existing assets plus additions to assets resulting from the forecast Capital Programme, eg. vehicles, upgrades to the Crematorium burners. This gives the Council some headroom to borrow early for a capital purpose in order to secure low interest rates.

5. How is the percentage on the historic risk of default arrived at? What does it mean?

   There are three ratings agencies in the UK (Fitch/Moody's/Standard & Poor's) who annually publish default information on financial institutions. This is amalgamated by the Council's treasury advisers to analyse the incidence of a financial institution defaulting over a one year time horizon based on an 'A' rated institution. An 'A' rated institution is regarded as a strong institution.

A percentage of 0.07% means that historically of all the A rated institutions, 0.07% have defaulted on their obligations. The purpose of including this percentage is to demonstrate that the Council is using well rated institutions who do not normally default.

6. Is the cash that is being managed inhouse revenue or capital?

   The short term surplus cash that is managed during the year in house may be revenue or capital, eg. the Council receives a capital grant in April but capital expenditure is incurred throughout the year giving rise to increased cash balances in the early part of the financial year which is invested short term in house. The Council receives Council Tax which is classed as revenue income. This is typically received in the months of April to January as Council Tax payers make 10 instalments. Therefore, the Council has less cash in the months of February and March and may need to borrow cash short-term in line with the cash flow forecast.

7. What is the 'maturity structure of borrowing' and how this will reduce the Councils exposure to large fixed rates falling due to refinancing at the same time?

   In line with the CIPFA Code of Practice on Treasury Management the Council has set limits on how much of it's debt will mature within a certain time period. The Council will have regard to this profile when undertaking new borrowing or debt restructuring so that the duration of loans is spread. The risk of refinancing is that when some loans expire, they may need replacing with new loans, and if this is done when interest rates are high then there could be an increased revenue cost. Therefore, the ideal scenario is to have a portfolio of loans spread from short to long time periods to hedge against changes in the interest rate environment.

8. What does the Council invest in?

   The Council is restricted in where it can invest its surplus funds. The restrictions are prescribed by statute (Local Government Act 2003 section 15(1)(a)). Councils are also required to have regard to supplementary investment guidance provided by the Communities and Local Government.

   The Council's investments are typically short term, ie. less than a year, and are made in sterling with institutions with high credit ratings.

9. What is the role of internal and external auditors in respect of treasury management?

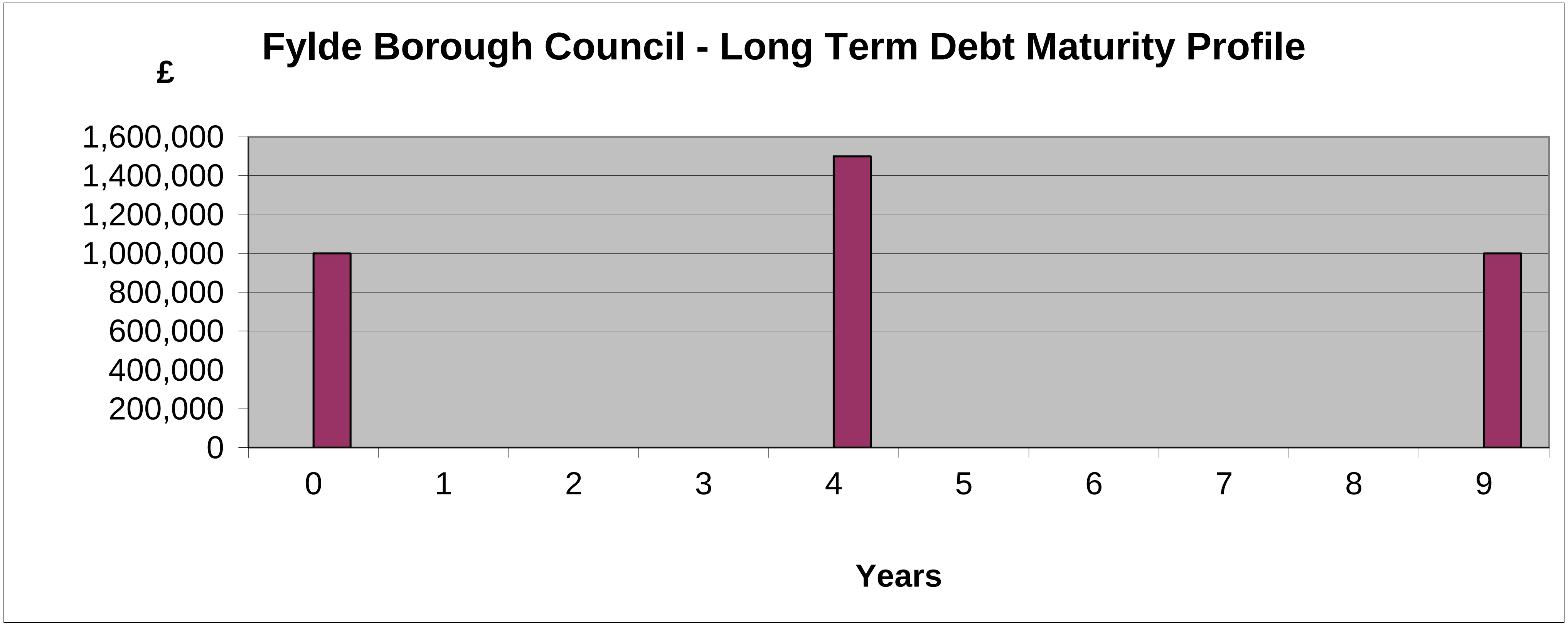
   The focus of external auditors work is a Council's annual accounts and the financial management systems and processes that underpin them. The external audit will enquire as to whether the Treasury Management Code has been adopted and whether its principles and recommendations have been implemented and adhered to. External auditors cannot comment or advise on authority's treasury management strategy or policies

Through a process of review, the role of Internal Audit is to provide an opinion of the adequacy, application and reliability of the key internal controls put in place by management to ensure that the identified risks are sufficiently mitigated. This will assist Treasury Management in meeting its desired objectives and help to ensure that the risk of fraud and/or error is minimised. Internal Audit will also look to identify other areas of potential risk which could usefully be included as well as any inefficiencies in existing processes and procedures where improvements can be made.

10. What are the qualifications of Council staff involved in treasury management practices?

Staff are either working towards or have achieved professional accountancy qualifications from CIPFA (Charted Institute of Public Finance Accountants), ACCA (Association of Chartered Certified Accountants) or CIMA (Chartered Institute of Management Accountants). Staff work closely with Treasury Management Advisors and attend treasury training and updates provided by the Treasury Management Advisors.

Appendix B



Fylde Borough Council - Long Term Debt Maturity Profile
£
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
0
1
2
3
4
5
6
7
8
9
Years

Audit Committee

FYLDE BOROUGH COUNCIL

Date	Thursday, 23 September 2010
Venue	Town Hall, St. Annes
Committee members	Councillor John Singleton (Chairman) Councillor Linda Nulty (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Keith Hyde, Louis Rigby, Paul Rigby, Janine Owen
Other Councillors	None
Officers	Tracy Scholes, Joanna Scott, Ian Curtis, Mark Evans, Savile Sykes, Lyndsey Lacey
Other Attendees	Iain Leviston, Shan Prior (KPMG)

1. Declarations of interest

Members were reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Local Government Act 2000. No members declared any interests.

2. Confirmation of Minutes

RESOLVED: To approve the minutes of the Audit Committee meetings held on 24 and 29 June 2010 as correct records for signature by the chairman.

3. Substitute members

There were no substitutions

4. Outstanding Strategic Risk Actions from 2009/10

At the request of the committee at its last meeting, Mark Evans (Assistant Director: Planning Services) presented an updated report detailing outstanding risk actions from the 2009/10 Strategic Risk Action Plan relating to the Local Development Framework (LDF)and Regeneration Framework.

Mr Evans confirmed that a comprehensive report on the Regeneration Framework had been considered by Cabinet on 15 September 2010. He added that the report presented a strategic overview of the public realm regeneration and proposed a list of schemes for approval. The framework also provided the opportunity for additional schemes to be considered and included from time to time when it is reviewed.

In terms of the LDF progress, Mr Evans made reference to the revocation of the Regional Spatial Strategy (RSS) by the Secretary of State and the requirement for the Council to set its own housing growth figures. He stated that this placed additional evidence requirements upon the process which must be properly founded and evidenced if they are to pass the tests of soundness by an Inspector.

Mr Evans further stated that new national planning guidance was expected to be issued by the Coalition government in the autumn which could further propose changes to the LDF process. The LDF Steering Group recognised these challenges and would be responding accordingly following advice from officers. Once this had been considered a revised risk action plan would be prepared.

Councillor Nulty asked about the extent of the regeneration framework. In response, Mr Evans made reference to the report presented to Cabinet which detailed the extent of the scheme and proposed arrangements in one composite document. He added that the situation had become more complex as a result of the new Community Infrastructure Levy Regulations 2010 (CIL). He stated that one of implications of the new CIL Regulations was that the tests for requesting funding contributions (including the 2.5% public realm contributions), through Section 106 agreements were in effect more onerous and restrictive, where requirements have to be directly related to the particular site.

Councillor Louis Rigby asked about the proposed consultation process with the parish and town councils. Mr Evans made reference to the proposed road show and an article on the subject in Fylde Matters which had recently been distributed to local residents.

Councillor Owen asked about the amount of weight attached to the Strategic Housing Land Availability Assessment (SHLAA). Mr Evans stated that the SHLAA had been completed and published and would be updated annually to reflect housing planning permissions and completions. The SHLAA remained part of the Core Strategy evidence base and would be used to identify potential housing sites at a later stage of the plan making process. The revocation of the Regional Spatial Strategy had not changed the need to complete a SHLAA

Following consideration of this matter it was RESOLVED:

1. To note the completion of the regeneration framework and the subsequent presentation to cabinet.

2. To note the LDF evidence base is being compiled and that following the expected national planning statement in the autumn that Officers would be advising the LDF Steering Group on any implications which emerge.

3. To ask the Assistant Director: Planning Services to present an updated report on the relevant outstanding actions relating to the Strategic Risk Action Plan to the January meeting of the committee

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

5. <u>Report to those charged with Governance (ISA 260) 2009/10</u>

Iain Leviston (Manager-KPMG) attended the meeting and presented an overview of key issues identified during the audit of the Council's financial statements for the year ended 31 March 2010. In addition, his report provided an assessment of the Council's arrangements to secure value for money in its use of resources.

Members were advised that the report concluded that having regard to the relevant criteria for principal authorities as published by the Audit Commission, the Council had secured economy, efficiency and effectiveness. It also provided an opinion to verify that the Council had complied with all legal and regulatory frameworks with respect to its accounting arrangements resulting in an unqualified opinion.

Mr Leviston indicated that since the issue of the Report of those Charged with Governance 2008/09, the Council had made notable improvements across a number of areas. Only one area of note remained regarding the Council's strategic approach to the use of natural resources. However, it was acknowledged that the Council is taking operational measures with respect to this matter.

A copy of the detailed report was circulated with the agenda.

Councillor Janine Owen sought clarification as to why the relevant certificate for the completion of the audit had not been issued. Mr Leviston explained that this was due to an elector requesting a Public Interest Report. Mr Curtis further clarified details of the request.

Councillor Ben Aitken asked for further information on the natural resources issue. Mr Leviston explained that this essentially related to a full range of natural resources from water conservation to the use of peat etc. He added that as part of the KLoE requirements, the Council was expected to develop an overall strategy to identify and mitigate the use of such resources. Tracy Scholes confirmed that actions which would demonstrate the overall strategy were currently contained within the Corporate Plan and it was anticipated that the achievement of these actions would address this point in the next year's audit. As a result, the Council would in the very near future be able to demonstrate a clear direction.

Councillor John Singleton asked Mr Leviston to explain how the Council could be assured that it was getting value for money from its Auditors taking in to consideration the size of the authority. Mr Levistion confirmed that all external auditors work to a 'scale of rates' based on the size of the Council. In addition, there was a process of negotiation with the Chief Executive to ensure that the Council did in fact get value for money.

Following detailed discussion it was RESOLVED:

1. To thank Mr Leviston for the timely production of the report and his attendance at the meeting.
2. To welcome the work undertaken by the Council over the course of the year resulting in a number of improvements as identified by the Council's external auditors with particular reference to improvements made to arrangements for workforce planning, performance in commissioning and procurement, an increased understanding of cost bases and performance together with the timely production of evidence and information in relation to financial information.
3. To circulate at the earliest opportunity, an update on the strategy to address the use of natural resources requirement.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

6. <u>Annual Statement of Accounts 209/10 (Post Audit)</u>

Joanna Scott (Section 151 Officer) presented a report on the Annual Statement of Accounts.

The report highlighted the Council's statutory obligations in preparing the financial statements of the Authority. In addition, it made reference to a small number of presentational adjustments that had been identified by KPMG. Ms Scott indicated that the Statement of Accounts had been adjusted accordingly to ensure that the Authority had fully complied with Accounting Standards and the SORP.

Copies of the updated Statement of Accounts together with the presentational adjustments agreed with KPMG were circulated with the agenda.

Councillor John Singleton asked whether a robust action plan had been put in place in anticipation of the Government's comprehensive spending review. Mrs. Scott confirmed that the impact of the spending review had been highlighted as a high risk and that key areas such as concessionary fares, the waste management contract and partnership working etc had been built in to the forecast. She added that at this stage in the process there were too many unknowns and that the budget announcement in October would provide more information. Tracy Scholes gave an example of savings which has been generated in related to a shared service partnership and the measures in place to monitor delivery.

Following consideration of this matter the committee RESOLVED to approve the updated Statement of Accounts for 2009/10 and that they be submitted to Full Council and re-signed accordingly.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

7. Management Letter of Representation 2009/10

Joanna Scott (Section 151 Officer) reported that the Council's external auditors KPMG required the Council to provide them with representations on specific matters such as the Council's financial standing and whether the transactions within the accounts were legal and unaffected by fraud.

Ms Scott explained that the wording for these representations is standard and prescribed by auditing standards. KPMG required a signed copy of the Council's management representations before they issued their audit opinion.

It was reported that the process was facilitated by the signing of a management letter of representation by the Chief Executive.

It was RESOLVED to authorise the Chief Executive to sign the Management Letter of representation for 2009/10.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

8. International Financial Reporting Standards (IFRS) Project progress Update

Joanna Scott (Section 151 Officer) presented an overview on the project progress made to the end of August 2010 in relation to the introduction of a new financial reporting framework, whereby the accounts for local authorities will be prepared under International Financial Reporting Standards (IFRS), with effect from 2010/11 (1/4/2010).

Mrs Scott explained that the majority of the preparatory IFRS work had now been completed but final detailed guidance from CIPFA was still outstanding. She added that this caused some considerable concern to the Council as the completion of the final part of the project was dependent on the receipt of the information.

In brief, the report highlighted progress to date and details of the project tasks outstanding/ ongoing. In addition, it provided a detailed plan of all the work required to be undertaken to the end of 2011.

Following consideration of this matter it was RESOLVED that the Audit Committee notes the progress on the implementation of the IFRS and that a review of the matter be considered at the January meeting of the committee.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

9. Effectiveness of Internal Audit)

Savile Sykes (Head of Internal Audit) provided an overview on the effectiveness of internal Audit. In doing so, he made reference to the 'light touch' self assessment exercise that had undertaken following last year's independent per review by a neighbouring authority.

Mr Sykes stated that the internal audit function is considered to be a key indicator in providing assurance on internal control. He added that a review of internal audit effectiveness is required as part of satisfying the overall governance arrangements in local authorities and supported the Council's Annual Governance Statement.

In brief, the report highlighted the findings of a self assessment exercise in relation to the effectiveness of internal audit and made certain recommendations for improvement. In addition, it made reference to the CIPFA Code of Practice for Internal Audit checklist (which contained 11 standards) performance indicators for internal audit together with details of a benchmarking exercise undertaken with other Lancashire authorities in relation to cost of internal audit.

Following discussion it was RESOLVED:

1. To note the findings of the review on the effectiveness of internal audit and confirm the conclusion that there is substantial compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

2. To convey the Committee's grateful thanks and appreciation to the audit team for their professionalism and high standards of work.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

10. Internal Audit- Terms of Reference

Savile Sykes (Head of Internal Audit) presented a review and update of Internal Audit's Terms of Reference which had been undertaken as part of the annual review of the effectiveness of the system of Internal Audit. The Terms of Reference set out the nature, role, responsibility, status and authority of Internal Audit within the Council and outlined the scope and conduct of internal audit work.

Mr Sykes confirmed that the Terms of Reference had been prepared in accordance with the provisions set out within the "Code of Practice for Internal Audit in Local Government in the UK 2006".

A full copy of the revised Terms of Reference was circulated with the agenda for consideration.

The Committee RESOLVED to approve the Terms of Reference as circulated.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

11. Internal Audit Strategy

As required by Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government, members of the Committee were presented with a copy of the proposed Internal Audit Strategy for consideration.

Mr Sykes explained that the Strategy is intended to be a high level statement of how the internal audit service would be delivered in accordance with its Terms of Reference. He added that it should also communicate the contribution that Internal Audit makes to the Council and that it was important to keep the strategy under review and up to date. Members were advised that the proposed strategy replaced the previous document and reflected the requirements of the Code.

A full copy of the Strategy was circulated with the agenda.

After discussion it was RESOLVED to approve the Internal Audit Strategy as appended to the report.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)

12. Corporate Governance Improvement Plan 2010/11

Further to the report submitted to the June meeting of the committee, Tracy Scholes (Director of Governance of Partnerships) presented an update on progress made so far in implementing the various actions to achieve improved corporate governance during 2010/11 and in doing so, also highlighted those areas where agreed actions had yet to be implemented.

The report included a copy of the Corporate Governance Improvement Plan which detailed 9 actions to secure corporate governance. Mrs Scholes briefed the committee on the present position of each of the actions detailed.

It was RESOLVED:

1. To note the latest position with regard to each of the issues included on the Corporate Governance Improvement Plan 2010/11.

2. That an updated report be presented to the January meeting of the committee.

(The Chairman indicated that he was satisfied that the matter was not controversial and dealt with the matter by show of hands rather than taking a recorded vote on it)
