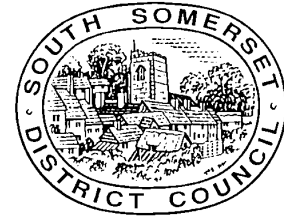


South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 26th November 2015

10.00 am

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

(disabled access is available at this meeting venue)



The public and press are welcome to attend.

If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Becky Sanders 01935 462596**, website: www.southsomerset.gov.uk

This Agenda was issued on Tuesday 17 November 2015.

A handwritten signature in black ink that reads 'Ian Clarke'.

Ian Clarke, Assistant Director (Legal & Corporate Services)

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



INVESTORS IN PEOPLE

Audit Committee Membership

The following members are requested to attend the meeting:

Chairman: Derek Yeomans
Vice-chairman: Tony Lock

Jason Baker
Mike Beech
Mike Best

Carol Goodall
Val Keitch
Graham Middleton

David Norris
Colin Winder

South Somerset District Council – Council Plan

Our focuses are: (all equal)

- Jobs – We want a strong economy which has low unemployment and thriving businesses
- Environment – We want an attractive environment to live in with increased recycling and lower energy use
- Homes – We want decent housing for our residents that matches their income
- Health and Communities – We want communities that are healthy, self-reliant and have individuals who are willing to help each other

Members questions on reports prior to the Meeting

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

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting.

Any member of the public has the right not to be recorded. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:

<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

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Information for the Public

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

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

The terms of reference of the Audit Committee are:

Internal Audit Activity

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

External Audit Activity

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

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;
14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

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

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

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

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

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

Audit Committee

Thursday 26 November 2015

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on 30 September 2015.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (adopted July 2012), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting. A DPI is defined in The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 (SI 2012 No. 1464) and Appendix 3 of the Council's Code of Conduct. A personal interest is defined in paragraph 2.8 of the Code and a prejudicial interest is defined in paragraph 2.9.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on Thursday 17 December 2015 (a week earlier than normal and **to be confirmed**) in the Main Committee Room, Brympton Way, Yeovil.

Items for Discussion

6. 2015/16 SWAP Internal Audit Quarter 2 Update Report (Pages 6 - 16)

7. Annual Audit Letter (Pages 17 - 26)

8. Treasury Management Performance to September 2015 (Pages 27 - 65)

9. Treasury Management Practices (Pages 66 - 99)

10. Update on the Fraud and Data Service (Pages 100 - 104)

11. Audit Committee Forward Plan (Pages 105 - 106)

Agenda Item 6

2015/16 SWAP Internal Audit Quarter 2 Update Report

Head of Service: Gerry Cox, Chief Executive - SWAP
Lead Officer: Jo George, Assistant Director
Contact Details: jo.george@southwestaudit.co.uk

Purpose of the Report

This report has been prepared for the Audit Committee to review the progress made on the 2015/16 Annual Internal Audit Plan.

Recommendation

To note the progress made.

Background

The Audit Committee agreed the 2015/16 Internal Audit Plan at its March 2015 meeting. This is the first and second quarter update report to inform the Audit Committee of progress against the plan for April to September 2015.

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

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: None

APPENDIX A



South Somerset District Council

Report of Internal Audit Activity
Quarter 1 and 2 Update, 2015-16

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox
Chief Executive
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david.hill@southwestaudit.co.uk

Jo George
Assistant Director
Tel: 07720312466
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Governance, Fraud and Corruption	Page 4
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Our audit activity is split between:

- Operational Audit
- Key Controls, Finance
- Key Controls, Income
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

Role of Internal Audit

The Internal Audit service for South Somerset District Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, but also follows the CIPFA Code of Practice for internal audit. The Partnership is also guided by the Internal Audit Charter last approved in March 2015.

Internal Audit provides an independent and objective opinion on the Authority’s control environment by evaluating its effectiveness. Primarily the work includes;

- Operational Audit Reviews
- Annual Review of Key Financial System Controls
- Annual Review of Main Income Stream System Controls
- Cross Cutting Fraud and Governance Reviews
- IT Audit Reviews
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer following consultation with Directors, Assistant Directors, Service Managers and External Audit. This year’s Audit Plan was approved by the Audit Committee at its meeting in March 2015. Since March, a number of minor scheduling changes have been made to the audit plan. An updated list of all audits planned for 2015/16 and their status at the end of Quarter 2 is detailed in [Appendix B](#).

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Quarter 1 and 2 Outturn:

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

Quarter 1 and 2 Outturn:

Audit Assignments undertaken in the Quarter

- Operational Audits

Internal Audit Work Programme

The schedule provided at [Appendix B](#) contains a list of all audits as agreed in the Annual Audit Plan 2015/16. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

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

Operational Audits

Operational Audits are a detailed evaluation of a Service’s control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated. In Quarter 1 and 2 there were 8 Operational audits scheduled, 4 of which are in progress or at Draft and 1 (NDR) has been completed and awarded Reasonable assurance.

Audit Area	Audit Area	Audit Area	Audit Area
NDR – New Business Rates System - Final	Private Sector Housing - Environmental Health – In progress	Business Continuity - Draft	\$106 Discharge of Planning Obligations
Yeovil Innovation Centre – In Progress	Key Income Stream Management	Council Tax Collection – In Progress	Housing & Council Tax Benefit

Quarter 1 and 2 Outturn:

Audit Assignments undertaken in the Quarter

- **Key Controls; Finance**

Quarter 1 and 2 Outturn:

Audit Assignments undertaken in the Quarter

- **Key Controls; Main Income Stream Audits**

It is anticipated that the remaining audits will be commenced shortly.

Work has also been ongoing in the period to complete outstanding 2014/15 audits:

- Car Park Enforcement – Final - Reasonable Assurance
- Choice Based Lettings – Draft
- Leisure Centres (Contract Compliance) – Final, Reasonable Assurance

2 follow up audits have been completed in the period for 2014/15 audits receiving partial assurance:

- Printing and Copying
- StreetScene Enforcement

Key Controls, Finance Audits

In 2013/14 it was agreed by the Audit Committee to replace Key Control Audits with Operational and Governance Audits. That reflected the positive assurance opinions awarded in relation to Key Control Audits over the previous few years along with an appetite to explore other risks and processes at the Council.

Main Income Stream Audits

In previous years a significant number of audit days were allocated to undertake a separate audit of each of the Council's main income streams. This is because shortfalls in income have a significant impact on the budget and are considered higher risk areas

For 2015/16 it was felt that as Substantial and Reasonable assurance had been provided for most of the income areas that a combined audit requiring less days was possible. This audit has been scheduled as an operational review (see above – Key Income Stream Management).

Quarter 1 and 2 Outturn:

Audit Assignments undertaken in the Quarter

- Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk.

There were 4 Governance audits scheduled for Quarter 1 and 2.

Audit Area	Opinion	Audit Area	Opinion
Expenses & Reimbursements Fraud Prevention	Final – Reasonable assurance	Yeovil Crematorium and Cemetery Annual Return	Final - Non Opinion
Lean Thinking Benefit Realisation	Not Started	Boden Mill and Chard Regeneration Scheme Statement of Accounts	Final - Non Opinion

It is anticipated that the Lean Thinking Benefit Realisation audit will commence shortly.

Quarter 1 and 2 Outturn:

Audit Assignments undertaken in the Quarter

- Information Systems
- Special Reviews

Information Systems

Information Systems – IT audits provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given.

There were 2 IT Audits scheduled for Quarter 1 and 2:

- Mobile and Remote Working – Final – Reasonable Assurance
- Telephony – In Progress

One further IT Audit is scheduled in Qtr3 and is detailed in Appendix B.

Special Reviews

I am pleased to report that since April 2015 there have been no irregularities reported to SWAP that have required investigation on behalf of SSDC.

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

Future Planned Work

This is detailed in [Appendix B](#) and is subject to any changes in agreement with the S151 officer.

Conclusions

For the audits completed to report stage, each report contains an action plan with a number of recommendations which are given service priorities. Definitions of these priorities can be found in the Categorisation of Recommendations section of [Appendix C](#).

The Committee will be aware that in June 2015, SWAP were pleased to provide an Audit Opinion for the Annual Governance Statement for 2014/15 that gave Reasonable Assurance. Work carried out to date in Quarter 1 and 2 largely supports this level of assurance for 2015/16 to date.

There have been no significant Corporate Risks identified from the work completed so far in Quarter 1 and 2.

Our approach to the audits for 2015/16 reflects this positive assurance and we are seeking to undertake more challenging and cross-cutting reviews rather than traditional service reviews that we have done over recent years, given that these areas have now proven themselves to have adequate and often good internal controls.

A list of all audits planned for 2015/16 and their status at the end of Quarter 2 are detailed in [Appendix B](#).

South Somerset District Council Audit Plan Progress 2015/16 - Qtr 1-2 Update (as at 10 Nov)

APPENDIX B

Audit Type	Audit Title	Quarter	Status	Opinion	No. of recs	Major - Recommendations - Minor				
						5	4	3	2	1
Follow Up	Printing & Copying Follow Up	1	Final	Non	0	0	0	0	0	0
Follow Up	Streetscene Enforcement Follow Up	1	Final	Non	0	0	0	0	0	0
Governance, Fraud & Corruption	Expenses & Reimbursements Fraud Prevention	1	Final	Reasonable	4	0	0	4	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts	1	Final	Non	0	0	0	0	0	0
ICT	Mobile and Remote Working_SSDC	1	Final	Reasonable	5	0	0	5	0	0
Governance, Fraud & Corruption	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Non	0	0	0	0	0	0
Operational	NDR - New Business Rates System	1	Final	Reasonable	6	0	0	3	3	0
Operational	Business Continuity	1	Draft		0	0	0	0	0	0
Governance, Fraud & Corruption	Lean Thinking Benefit Realisation	2	Not started		0	0	0	0	0	0
ICT	Telephony	2	In Progress		0	0	0	0	0	0
Operational	Yeovil Innovation Centre	2	In Progress		0	0	0	0	0	0
Operational	Council Tax Collection	2	In Progress		0	0	0	0	0	0
Operational	Private Sector Housing - Environmental Health	2	In Progress		0	0	0	0	0	0
Operational	S106 Discharge of Planning Obligations	2	Not started		0	0	0	0	0	0
Operational	Key Income Stream Management	2	Not started		0	0	0	0	0	0
Operational	Housing & Council Tax Benefit	2	Not started		0	0	0	0	0	0
Governance, Fraud & Corruption	Leisure Centre / Hub Contract Compliance	3	Not started		0	0	0	0	0	0
Governance, Fraud & Corruption	Contract Compliance - PPR Compliance	3	Not started		0	0	0	0	0	0
ICT	Physical and Environmental Controls	3	Not started		0	0	0	0	0	0
Operational	New Payroll System	3	Not Started		0	0	0	0	0	0
Operational	Asset Register & Land Record Management	3	Not started		0	0	0	0	0	0
Operational	Aged Debt Management	3	Not started		0	0	0	0	0	0
Governance, Fraud & Corruption	Imprest Accounts	4	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Risk Strategy & TEN Risk Management	4	Not started		0	0	0	0	0	0
Operational	Property Services	4	Not started		0	0	0	0	0	0
Operational	Ninesprings Cafe	4	Not started		0	0	0	0	0	0
Governance, Fraud & Corruption	Mobile and Remote Working_H&S	4	Not started		0	0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

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

Categorisation Of Recommendations

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

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

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

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

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

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

Definitions of Risk

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

Agenda Item 7

Annual Audit Letter

Portfolio Holder: Councillor Ric Pallister, Leader of the Council
Chief Executive: Rina Singh, Vega Sturgess
Lead Officer: Donna Parham, Assistant Director (Finance and Corporate Service)
Contact Details: Donna.parham@southsomerset.gov.uk or (01935) 462225

Purpose of the report

This report introduces the annual audit letter for the 2014/15 financial year.

Recommendations

The Audit Committee is asked to:

- (1) Note the contents of the Annual Audit Letter as set out in the report.

Introduction

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

“To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken.”

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

Each year the external auditor is required to make arrangements for the production of an audit letter for each local authority.

Statement of Accounts

An unqualified opinion was given on the Statement of Accounts.

The Value for Money Conclusion

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

Objection to the Accounts

The Annual Audit letter outlines that there were two objections to the 2013/14 accounts. The objection regarding the renegotiation of S106’s was not upheld and the remaining objection regarding a planning matter will be assessed once the Judicial Review has been concluded. A report regarding the objections will be made to the Audit Committee once the overall outcome is fully known.

Financial Implications

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

Background Papers

SSDC Audit Findings Report.

The Annual Audit Letter for South Somerset District Council

Year ended 31 March 2015

23 October 2015

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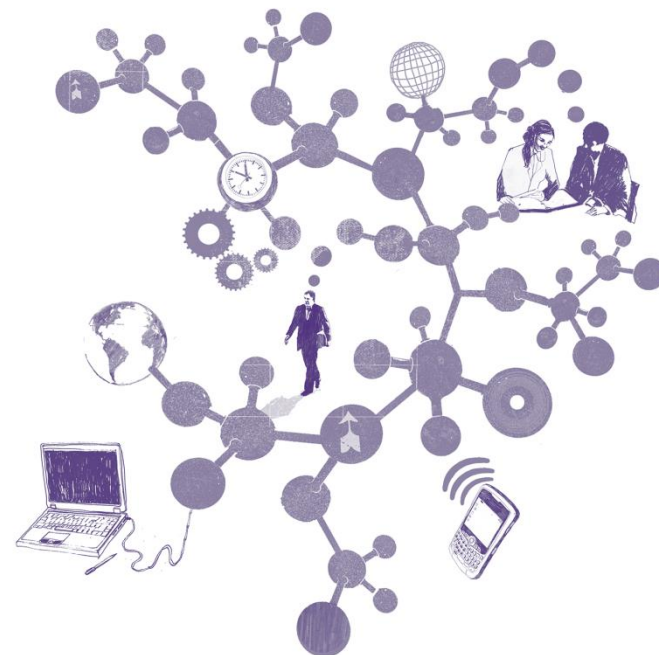
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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at South Somerset District Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 4 February 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

Page 21

On 30 September 2015 we reported our findings arising from the audit of the financial statements to the Audit Committee in our Audit Findings Report. The key messages reported were:

- We did not identify any adjustment affecting the Council's reported financial position but we identified a number of adjustments to improve the presentation of the financial statements
- the Council included the additional disclosures that we suggested during the audit and made some presentation and disclosure adjustments to their accounts
- the financial statements were supported by a high standard of working papers in accordance with the agreed timetable supported by excellent assistance from the finance team
- the evidence obtained to support the carrying value of land and buildings on the balance sheet needs to be strengthened
- an action plan has been agreed with the Council based on our findings from our audit work and is attached at appendix A

We issued an unqualified opinion on the Council's 2014/15 financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages continued

Value for Money (VfM) conclusion

We issued an unqualified VfM conclusion for 2014/15 on 30 September 2015.

Overall our work highlighted that the Council has managed its finances effectively. It has relatively high levels of reserves (as a percentage of gross expenditure) and it has managed its expenditure to achieve an underspend against its original budget, while delivering its savings targets.

There has been a deterioration in Council Tax collection rates and the Council has undertaken appropriate action to address this through increased staff capacity. Further the Council's Medium Term Financial Plan has gaps in future years for identified savings and there is a potential over reliance on a single source of income. The Council's plans for 2016/17 are well advanced. There is currently a more significant gap for 2017/18 and plans for that year will be based on the new corporate plan.

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints within which it is required to operate. The Council monitors performance especially where there has been service redesign to ensure that the Council is still achieving its targets.

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Key messages continued

<p>Other matters</p>	<p>For the financial year 2013/14 we received two objections to the Accounts.</p> <p>One objection from Councillors at South Somerset related to members concerns regarding a decision taken to vary a major s106 'planning gain' agreement and the Council's underlying processes. The objection was not upheld after our investigation into the matter.</p> <p>The second objection was from a member of the public which concerned two main issues. The first issue regarding the arrangements for renegotiation of s106 'planning gain' agreements has been investigated and the objection was not upheld. The second issue relates to the legal costs incurred by the Council in defending Judicial Review actions in relation to the granting of planning permission. This investigation will be completed when the outstanding legal process is concluded.</p> <p>We could not formally conclude the audit for 2014/15 due to the above outstanding objections from 2013/14 accounts. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion for 2014/15.</p>
<p>Certification of housing benefit grant claim</p>	<p>Our work on the certification of the Housing Benefits claim is ongoing and the key messages from our certification work will be reported in our certification report due to be issues on completion of work on this claim.</p>
<p>Audit fee</p>	<p>Our fee for 2014/15 was £65,701, excluding VAT which was in line with our planned fee for the year and the fee charged in the previous year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible officer/ due date
Page 24	<p>1. The latest valuation date for land and building is 1 April 2014 i.e. a year before the balance sheet date it relates to. Other valuations are between a year and four years older than that. The Council's valuer has advised that there are no significant changes in values of assets values in prior years. The Council has relied on his professional opinion which we consider is reasonable.</p> <p>Recommendation: Valuations of property, plant and equipment (PPE) should be at the balance sheet date eg 31 March 2015 not 1 April 2014. The Council should provide sufficient evidence to demonstrate that the carrying value of PPE based on valuations in prior years is not materially misstated.</p>	High	<p>Agree to finding a mutually acceptable way forward through working with the District Valuer and SSDC's in-house Valuer on the timing of valuations.</p> <p>Responsible office: Finance Manager Due date: 2015/16 statement of accounts</p>
	<p>2. The Council tax collection rate for 2014/15 was 97.04% which is a reduction from the prior year and still below other districts both regionally and nationally. The target of 97% is low.</p> <p>Recommendation: The Council should increase its target council tax collection rate and ensure it's arrangements result in improved collection during 2015/16.</p>	High	<p>The collection rate for 2015/16 is expected to improve in the second half of this year as the additional staffing has been added. The target collection rate will increase for 2016/17.</p> <p>Responsible office: Revenues and Benefits Manager Due date: immediate and 1 April 2016</p>
	<p>3. Review of the medium term financial plan shows there are a number of gaps in future years which have yet to be addressed and no concrete plans have been made to identify how the shortfalls will be addressed.</p> <p>Recommendation: Plans to bridge the budget gap in 2016/17 should be complete and plans for 2017/18 should be drawn up as soon as possible.</p>	High	<p>Plans for 2016/17 are well underway and should be completed by December 2015. Plans for 2017/18 will be drawn up in conjunction with the production of a number of documents eg headline business cases for staying alone or sharing with SDC, plus the refresh of the Council Plan.</p> <p>Responsible office: Assistant Director – Finance and Corporate Services Due date: ongoing</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Audit fee	65,701	65,701
Housing benefit grant certification fee	13,990	*13,990
Total audit fees	79,691	79,691

* The indicative fee published by the Public Sector Audit Appointments for grant certification work required in 2014/15 for the Council is £13,990. As the work has not yet been completed on the grant certification, we therefore cannot confirm the final fee.

Fees for other services

Service	Fees £
Audit related services	
Fees for member 2013/14 objection to accounts	6,738
Non-audit related services	
Investors in people accreditation	9,990

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Reports issued

Report	Date issued
Audit Plan	4 February 2015
Audit Findings Report	21 September 2015
Certification Report (expected)	December 2015
Annual Audit Letter	23 October 2015



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Agenda Item 8

Treasury Management Performance to September 2015

Assistant Director: Donna Parham – Finance and Corporate Services
Service Manager: Amanda Card - Finance
Lead Officer: Karen Gubbins, Principal Accountant - Exchequer
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Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the six months ended 30th September 2015. To carry out the mid-year review of the Treasury Management Strategy.

Recommendations

2. The Audit Committee are asked to:
 - Note the Treasury Management Activity for the six-month period ended 30th September 2015.
 - Note the position of the individual prudential indicators for the six-month period ended 30th September 2015.
 - Note that we are Increasing our investment with the CCLA Property fund by £1million.
 - review the attached Treasury Management Policy and recommend it to Council (Appendix B)
 - Carry out the mid-year review of the Treasury Management Strategy and recommend it to Council. (Strategy attached with the amendments highlighted – Appendix C)

The Investment Strategy for 2015/16

3. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
4. Treasury management in this context is defined as:

"The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".
5. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
6. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

7. In order to diversify the authority's investment portfolio which is largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and higher yielding asset classes during 2015/16. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved

Interest Rates 2015/16

8. Base rate began the financial year and remains at 0.5%.
9. Our advisors are forecasting that the outlook is for official interest rates to remain at 0.5% until June 2016, as shown below:

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Average
Official Bank Rate														
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.33
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75	1.17
Downside risk				-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-0.73

Investment Portfolio

10. The table below shows the Council's overall investments as at 30th September 2015:

	Value of Investments at 01.04.15 £	Value of Investments at 30.09.15 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
Money Market Fund (Variable Net Asset Value)	1,001,247	1,001,247	Variable
Property Fund	3,363,303	3,363,303	Variable
Total	4,364,550	4,364,550	
Internal Investments			
Certificates of Deposit	4,512,371	7,000,861	Fixed
Corporate Bonds	11,271,639	12,343,862	Fixed
Floating Rate Notes (FRNs)	9,972,584	10,358,900	Variable
Short Term Deposits (Banks)	7,500,000	19,400,000	Variable
Short Term Deposits (Other LAs)	8,000,000	3,000,000	Variable
Money Market Funds (Constant Net Asset Value) & Business Reserve Accounts	3,720,000	1,310,000	Variable
Total	44,976,594	53,413,623	
TOTAL INVESTMENTS	49,341,144	57,778,173	

Returns for 2015/16

11. The returns to 30th September 2015 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
Payden Money Market Fund (VNAV)	4	
Property Fund (CCLA)	86	
Total	<u>90</u>	4.48
Internal Investments		
Certificates of Deposit (CD's)	19	
Corporate Bonds	77	
Floating Rate Notes (FRNs)	36	
Fixed Term Deposits/T Bills	57	
Money Market Funds (CNAV) & Business	11	
Reserve Accounts		
Total	<u>200</u>	0.75
Other Interest		
Miscellaneous Loans	2	
Total	<u>2</u>	
TOTAL INCOME TO 30TH SEPTEMBER 2015	<u><u>292</u></u>	1.01
PROFILED BUDGETED INCOME	<u><u>231</u></u>	
FORECAST SURPLUS FOR YEAR END	88	

12. The table above shows investment income for the year to date compared to the profiled budget. The annual budget is set at £461,320. We currently estimate that the position at the end of the financial year will be an overall favourable variance in the order of £88,025. This is assuming SSDC receive a dividend of 3p per unit each quarter for its investment in the property fund, however if there is a dip in the economy this could affect the forecasted return.

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

Investments

14. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15. New investments can be made with the following institutions:

- Other Local Authorities;
- AAA-rated Money Market Funds;

- Certificates of Deposit (CDs) and Term Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australian, Canadian and American);
- T-Bills and DMADF (Debt Management Office);
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank;
- Commercial Paper
- Other Money Market Funds and Collective Investment Schemes meeting the criteria in SI 2004 No 534, SI 2007 No 573 and subsequent amendments.

15. The graph shown in Appendix A shows the performance of the in-house Treasury team in respect of all investments for the quarter ending 30th September 2015 in comparison to all other clients of Arlingclose.

16. The graph shows that SSDC is in a satisfactory position in terms of the risk taken against the return on investments.

Borrowing

17. An actual overall borrowing requirement (CFR) of £9.7 million was identified at the beginning of 2014/15. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 30th September 2015 the Council had no external borrowing.

Breakdown of investments as at 30th September 2015

Date Lent	Counterparty	Amount	Rate	Maturity Date
5 May 15	Lancashire County Council	1,000,000	0.50	5 Nov 15
6 Jan 14	Greater London Authority	2,000,000	1.03	6 Oct 15
5 May 15	DBS Bank Ltd	2,000,000	0.58	5 Nov 15
26 May 15	Rabobank International	1,000,000	0.58	26 Nov 15
4 Sep 15	Barclays Bank Plc	1,000,000	0.54	11 Dec 15
11 Sep 15	IPA SCB TD Incoming (Santander)	1,000,000	0.65	11 Mar 16
9 Sep 15	United Overseas Bank Ltd	2,000,000	0.60	9 Mar 16
3 Jul 15	Barclays Bank Plc	1,000,000	0.53	9 Oct 15
17 Jul 15	Bank of Scotland	1,000,000	0.57	23 Oct 15
28 Aug 15	Bank of Scotland	1,000,000	1.00	30 Aug 16
30 Sep 15	Nationwide Building Society	1,000,000	0.65	21 Mar 16
15 Jul 15	Toronto Dominion Bank	2,000,000	0.54	15 Jan 16
15 Jul 15	Nationwide Building Society	1,000,000	0.50	19 Oct 15
28 Aug 15	Commonwealth Bank of Australia	1,400,000	0.65	29 Feb 16
7 Sep 15	Coventry Building Society	2,000,000	0.41	7 Oct 15
16 Sep 15	Goldman Sachs International Bank	2,000,000	0.48	18 Dec 15

	Corporate Bonds/Eurobonds			
10 Dec 13	GE Capital UK Funding	1,038,020	1.42	18 Jan 16
17 Jan 14	Places for People Capital Markets	603,877	2.67	27 Dec 16
17 Jan 14	Places for People Capital Markets	459,287	2.67	27 Dec 16
7 Apr 14	Commonwealth Bank of Australia	517,020	1.00	14 Dec 15
8 Apr 14	Nordea Bank AB	515,835	0.98	15 Dec 15
4 Aug 14	Leeds Building Society (Covered)	560,713	2.13	17 Dec 18
22 Oct 14	Yorkshire Building Society (Covered)	1,729,543	1.56	12 Apr 18
5 Mar 15	Volkswagen International Finance	1,015,107	0.70	23 Oct 15
5 Mar 15	Westpac Banking Corporation	1,007,119	0.74	23 Dec 15
17 Apr 15	Heathrow Funding Ltd	1,109,810	0.85	31 Mar 16
7 May 15	Daimler AG	501,440	0.88	10 Dec 15
5 Jun 15	European Investment Bank	2,105,188	0.66	7 Sep 16
12 Jun 15	Prudential Plc	155,191	0.96	16 Nov 15
3 Aug 15	Bank Nederlandse Gemeenten	1,025,712	0.68	26 Feb 16
	Certificates of Deposit (CDs)			
29 Apr 15	Standard Chartered	1,000,150	0.68	29 Oct 15
6 May 15	Nordea Bank AB	500,075	0.56	6 Nov 15
31 Jul 15	Landesbank Hessen-Thuringen	2,000,298	0.69	29 Jan 16
5 Aug 15	Credit Suisse AG London	500,038	0.50	5 Nov 15
7 Aug 15	Standard Chartered	1,000,149	0.70	5 Feb 16
26 Aug 15	Oversea Chinese Banking Corporation	2,000,151	0.50	26 Nov 15
	Floating Rate Notes (FRNs)			
25 Nov 13	HSBC Bank PLC	1,004,169	0.82	16 May 16
3 Apr 14	Yorkshire Building Society *Covered*	1,005,441	0.98	23 Mar 16
22 Oct 14	Abbey National Treasury Services *Covered*	1,034,829	0.71	5 Apr 17
21 Nov 14	Barclays Bank Plc *Covered*	1,000,341	0.68	15 Sep 17
25 Mar 15	Lloyds Bank Plc *Covered*	2,006,200	0.64	16 Jan 17
29 Apr 15	Toronto Dominion *Covered*	1,002,572	0.66	20 Nov 17
26 Jun 15	Nationwide Building Society *Covered*	1,001,774	0.68	17 Jul 17
2 Jul 15	National Australia bank Ltd	1,503,339	0.67	12 Aug 16
10 Sep 15	Cooperative Centrale Raiffeisen Boerenleenbank	800,235	0.49	23 Oct 15
	Pooled Funds & Money Market Funds			
	Payden Fund VNAV	1,001,247	0.88	
	CCLA Property Fund	3,363,303	5.68	
	Federated Money Market Fund	500,000	0.39	
	Blackrock Money Market Fund	810,000	0.44	
	TOTAL	55,474,599		

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

Prudential Indicators – Quarter 2 monitoring

Background:

- In February 2015, Full Council approved the indicators for 2015/16, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allowed local authorities to determine their own borrowing limits provided they are affordable and that every local authority complies with the code.

Prudential Indicator 1 - Capital Expenditure:

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

	2015/16 Original Estimate £'000	Expected Outturn £'000	2015/16 Variance £'000	Reason for Variance
Approved capital schemes	5,568	4,450	(1,118)	Re-profiling of the expenditure to future years
Reserves	404	1,634	1,230	Slippage from 2014/15 into 2015/16
Total Expenditure	5,972	6,084	112	

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

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

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

Portfolio	2015/16 Revised Estimate £'000	Expected Outturn £'000	2015/16 Variance £'000	Reason for Variance
Financing Costs*	(338)	(402)	(64)	Better return on the Property fund is expected but this is dependent on the economy
Net Revenue Stream	17,390	17,741	351	Carry forwards approved of £303k and £44k contribution from the Somerset Rivers Authority
%*	(1.9)	(2.3)		

*figures in brackets denote income through receipts and reserves

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

Prudential Indicator 3 - Capital Financing Requirement:

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

	2015/16 Original Estimate £'000	Expected Outturn £'000	2015/16 Variance £'000	Reason for Variance
Opening CFR	9,484	9,447	(37)	
Capital Expenditure	5,192	5,991	799	See explanation for Prudential Indicator 1 above
Capital Receipts*	(5,046)	(4,450)	596	
Grants/Contributions*	(146)	(1,541)	(1,395)	
Minimum Revenue Position (MRP)	(123)	(148)	(25)	One lease has been amended to be repaid over a shorter period hence an increase in the current years MRP
Closing CFR	9,361	9,299	(62)	

*Figures in brackets denote income through receipts or reserves.

Prudential Indicator 4 – Gross Debt and the Capital Financing Requirement:

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

	2015/16 Original Estimate £'000	2015/16 Qtr 2 Actual £'000	2015/16 Variance £'000	Reason for Variance
Borrowing	0	0	0	
Finance Leases	248	186	(62)	Amendment to the MRP has reduced the amount outstanding on the finance leases
Total Debt	248	186	(62)	

25. Total debt is expected to remain below the CFR.

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

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

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

	2015/16 % Limit	2015/16 Qtr 2 Actual %	2015/16 Variance %	Reason for Variance
Fixed	80	5.29	(74.71)	Within limit
Variable	100	94.71	(5.29)	Within limit

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

	2015/16 % Limit	2015/16 Qtr 2 Actual %	2015/16 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

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

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

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

Upper Limit for total principal sums invested over 364 days	2015/16 Maximum Limit £'000	2015/16 Qtr 2 Actual (Principal amount) £'000	Reason for Variance
Between 1-2 years	25,000	6,000	Within limit
Between 2-3 years	20,000	2,500	Within limit
Between 3-4 years	10,000	500	Within limit
Between 4-5 years	10,000	0	Within limit
Over 5 years	5,000	0	Within limit

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

Prudential Indicator 7 – Credit Risk:

31. The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Prudential Indicator 8 - Actual External Debt:

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

Actual External Debt as at 31/03/2015	£'000
Borrowing	0
Liabilities arising from finance leases	334
Total	334

Prudential Indicator 9 - Authorised Limit for External Debt:

33. The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy. Borrowing will arise as a consequence of all the financial transactions of the Council not just arising from capital spending.
34. This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A ceiling of £12 million was set to allow flexibility to support new capital projects over and above the identified borrowing requirement.

	2015/16 Estimate £'000	2015/16 Qtr 2 Actual £'000	2015/16 Variance £'000	Reason for Variance
Borrowing	11,000	0	(11,000)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	1,000	186	(814)	Within limit
Total	12,000	186	(11,814)	

Prudential Indicator 10 – Operational Boundary for External Debt:

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

	2015/16 Estimate £'000	2015/16 Qtr 2 Actual £'000	2015/16 Variance £'000	Reason for Variance
Borrowing	9,200	0	(9,200)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	800	186	(614)	Within limit
Total	10,000	186	(9,814)	

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

36. This indicator is relevant to highlight the existence of any large concentrations of fixed rated debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest changes in any one period. When we borrow we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

Maturity structure of fixed rate borrowing	2014/15 Actual %	2015/16 Qtr 1 Actual %	Lower Limit %	Upper Limit %
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100
40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed rate external borrowing at present the above upper and lower limits have been set to allow flexibility.

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

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

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Decrease in Band D Council Tax	0.07	0.17	0.17

Prudential Indicator 13 - Adoption of the CIPFA Treasury Management Code:

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

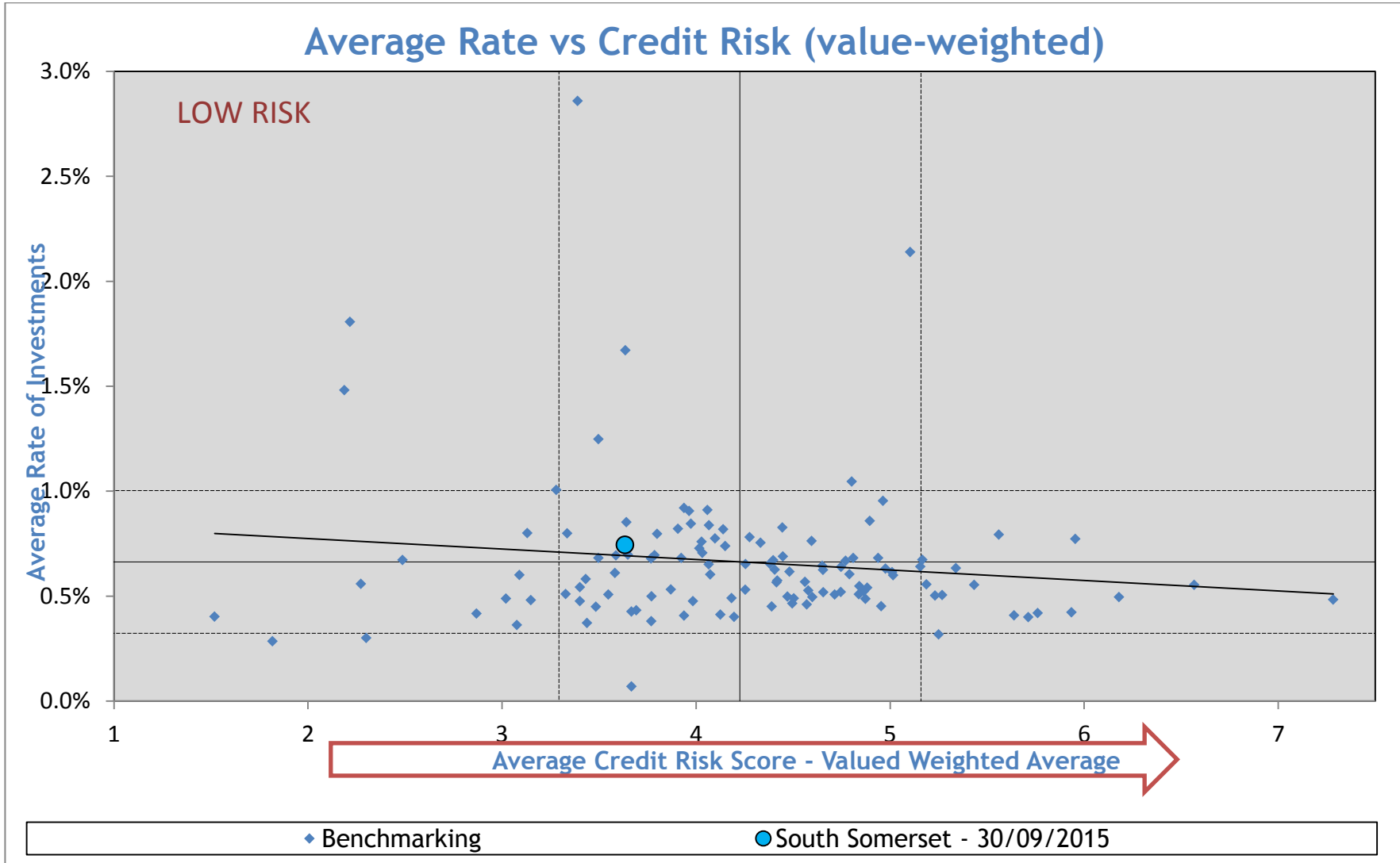
Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18 th April 2002.

Conclusion

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

Background Papers: Prudential Indicators Working Paper, Treasury Management Strategy Statement 2015/16, Quarter 2 2015/16 Capital Programme.

Appendix A



Appendix B

TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction and background

- 1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.
- 1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.3 Full Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- 1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to Assistant Director, Finance and Corporate Services, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. Policies and objectives of treasury management activities

- 2.1 The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- 2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."
- 2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source

Appendix B

from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

- 2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.
-

South Somerset District Council Treasury Management Strategy Statement and Investment Strategy 2015/16

Contents

1. Background
2. Credit Outlook and Interest Rate Forecast
3. Balance Sheet and Treasury Position
4. Borrowing Requirement and Strategy
5. Investment **Policy and** Strategy
6. Policy on use of financial Derivatives
7. Balanced Budget Requirement
8. 2015/16 MRP Statement
9. Monitoring and Reporting on Treasury Management
10. Other Items

Appendices

- A. Existing and Projected Portfolio Position
- B. Prudential Indicators
- C. Arlingclose's Economic and Interest Rate Forecast
- D. Glossary of Terms

1. **Background**

- 1.1 In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
- 1.2 In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
- 1.3 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance
- 1.4 CIPFA has defined Treasury Management as:

"the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.5 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.
- 1.6 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.7 Full Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 1.8 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to the Assistant Director (Finance and Corporate Services) who will act in accordance with the organisation's policy statement and TMPs and CIPFA's standard of Professional Practice on Treasury Management.
- 1.9 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 1.10 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- 1.11 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
- 1.12 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.
- 1.13 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
- 1.14 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:
- Liquidity Risk (Adequate cash resources)
 - Market or Interest Rate Risk (Fluctuations in the value of investments)
 - Inflation Risk (Exposure to inflation)
 - Credit and Counterparty Risk (Security of Investments)
 - Refinancing Risk (Impact of debt maturing in future years)
 - Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

2. Credit Outlook and interest rate forecast

- 2.1 Credit outlook: The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.
- 2.2 The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Authority.

~~2.3 Interest rate forecast: The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more~~

towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%.

- 2.4 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix C.

3. Balance Sheet and Treasury Position

- 3.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

	31/03/14 Actual £'000	31/03/15 Actual £'000	31/03/16 Estimate £'000	31/03/17 Estimate £'000	31/03/18 Estimate £'000
CFR	9,624	9,447	9,361	9,316	9,293
Usable Capital Receipts	(36,396)	(35,659)	(30,601)	(30,276)	(30,276)
Balances & Reserves	(14,143)	(16,795)	(17,866)	(17,866)	(17,866)
Net Balance Sheet Position **	(40,915)	(43,007)	(39,106)	(38,826)	(38,849)

***excluding working capital.*

- 3.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.
- 3.3 As the CFR represents the underlying need to borrow and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements.
- 3.4 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.
- 3.5 The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget. The estimate for interest payments in 2015/16 is nil and for interest receipts is £461,320

4. Borrowing Requirement and Strategy

- 4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

- 4.2 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 4.3 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 4.4 In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) or its replacement body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except [your local] Pension Fund)
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues
- include any other counterparty you intend to borrow from

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

- 4.5 The Council will undertake a financial options appraisal before any borrowing is made.
- 4.6 For any borrowing that may be undertaken in advance of need the Council will adopt the same rigorous policies and approach to the protection of capital as it does for the investment of its surplus balances.

5. Investment Strategy

- 5.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £42.9 and £64.7 million, and similar levels are expected to be maintained in the forthcoming year.
- 5.2 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the

risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

- 5.3 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and higher yielding asset classes during 2015/16.

The Authority may invest its surplus funds with any of the counterparties in the following table, subject to the cash limits (per counterparty) and time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2 m 5 years	£4 m 20 years	£4 m 50 years	£3 m 20 years	£2 m 20 years
AA+	£2 m 5 years	£4 m 10 years	£4 m 25 years	£3 m 10 years	£2 m 10 years
AA	£2 m 4 years	£4 m 5 years	£4 m 15 years	£3 m 5 years	£2 m 10 years
AA-	£2 m 3 years	£4 m 4 years	£4 m 10 years	£3 m 4 years	£2 m 10 years
A+	£2 m 2 years	£4 m 3 years	£2 m 5 years	£3 m 3 years	£2 m 5 years
A	£2 m 13 months	£4 m 2 years	£2 m 5 years	£3m 2 years	£2 m 5 years
A-	£2 m 6 months	£4 m 13 months	£2 m 5 years	£3 m 13 months	£2 m 5 years
BBB+	£1 m 100 days	£2 m 6 months	£2 m 2 years	n/a	£2 m 2 years
BBB or BBB-	n/a	£2 m 100 days	n/a	n/a	n/a
None	n/a	n/a	£4 m 25 years*	n/a	£2 m 5 years
Pooled funds	£4m (nominal value) per fund				

*includes unrated UK Local Authorities

- 5.4 **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

- 5.5 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank National Westminster Bank Plc.

- 5.6 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The

combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- 5.7 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 5.8 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.
- 5.9 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.
- 5.10 **Pooled Funds:** Shares in diversified investment vehicles consisting of **the** any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. The limit on pooled funds is on the nominal value not the valuation.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

- 5.11 **Risk Assessment and Credit Ratings:** The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - on the advice of Arlingclose, any existing investments that can be recalled or sold at no cost will be, following consultation with the chair of Audit Committee, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 5.12 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the

outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.13 **Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.14 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.15 Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.16 Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the following table:

Non-Specified Investment Limits

	Cash limit
Total long-term investments (over 364 days)	£30m
Total investments without credit ratings or rated below A- (does not include other UK Local Authorities)	£5m *

Total investments in foreign countries rated below AA+	£4m
Total non-specified investments	£32m

*This limit will be reviewed in the event a change in EU legislation results in MMFs no longer being credit rated.

5.17 Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £4 million on 31st March 2014. South Somerset District Council has allocated a weighting of 25% to this risk, meaning that no more than 25% of available reserves (£1 million) will be put at risk in the case of a single default. The maximum that will be lent to any one organisation (other than the UK Government) will be £4 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (*e.g. King & Shaxson*), foreign countries and industry sectors as below:

Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£12m per country
Registered Providers	£8m in total
Unsecured investments with Building Societies	£8m in total
Loans to unrated corporates	£4m in total
Money Market Funds	£20m in total

5.18 Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

5.19 **Liquidity Management:** The Authority uses cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

6 Policy on use of financial Derivatives

6.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (*e.g. interest rate collars and forward deals*) and to reduce costs or increase income at the expense of greater risk (*e.g. LOBO loans and callable deposits*). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (*i.e. those that are not embedded into a loan or investment*).

- 6.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 6.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 6.4 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

7. Balanced Budget Requirement

- 7.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

8. 2014/15 MRP Statement

Background:

- 8.1 CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.
- 8.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 8.3 The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. Four options for prudent MRP provision are set out in the CLG Guidance. Details of each are set out below:

Option 1 – Regulatory Method:

- 8.4 This method replicates the position that would have existed under the previous Regulatory environment. MRP is charged at 4% of the Authority's underlying need to borrow for capital purposes, however this option allows a historical adjustment to take place that is beneficial to some authorities. This method can only be used for supported expenditure.

Option 2 – CFR Method:

- 8.5 This method simplifies the calculation of MRP by basing the charge solely on the authority's CFR but excludes the technical adjustments included in Option 1. The

annual MRP charge is set at 4% of the CFR at the end of the preceding financial year. This method can only be used for supported expenditure.

Option 3 – Asset Life Method:

- 8.6 Under this method MRP is determined by the life of the asset for which the borrowing is undertaken. This can be calculated by either of the following methods:
- (a) Equal Installments: where the principal repayment made is the same in each year,
or
 - (b) Annuity: where the principal repayments increase over the life of the asset.
The annuity method has the advantage of linking MRP to the benefits arising from capital expenditure, where these benefits are expected to increase over the life of the asset.
- 8.7 MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational. This enables an MRP “holiday” to be taken in relation to assets which take more than one year to be completed before they become operational.
- 8.8 The estimated life of the asset will be determined in the year that MRP commences and cannot be revised. However, additional repayments can be made in any year which will reduce the level of payments in subsequent years.
- 8.9 If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life of the land will be treated as equal to that of the structure, where this would exceed 50 years.
- 8.10 In instances where central government permits revenue expenditure to be capitalised, the Statutory Guidance sets out the number of years over which the charge to revenue must be made.

Option 4 - Depreciation Method:

- 8.11 The depreciation method is similar to that under Option 3 but MRP is equal to the depreciation provision required in accordance with proper accounting practices to be charged to the Income and Expenditure account

MRP Policy for 2015/16:

- 8.12 It is proposed that for 2015/16 the Council adopts Option 3 – Asset Life Method. Option 3 enables the calculation of MRP to be aligned with the life of the asset. If it is ever proposed to vary the terms of this MRP Statement during the year, a revised statement will be made to Council at that time.
- 8.13 MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

9. Monitoring and Reporting on Treasury Management

The scrutiny of the treasury management function is carried out by the Audit Committee who then make recommendations to Full Council. The Assistant Director

(Finance and Corporate Services) will report to Council/Audit Committee on treasury management activity / performance as follows:

- (a) Audit Committee will be responsible for the scrutiny of treasury management activity and practices.
- (b) Audit Committee will review the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators twice per year and recommend them to Council for Approval
- (c) Audit Committee will monitor Treasury Management activity quarterly and **annually and** will approve the Treasury Management Practices on an annual basis
- (d) Full Council will receive the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators prior to the start of the financial year and a mid year review against the strategy approved for the year.
- (e) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

10. Other Items

Training

CIPFA's revised Code requires the Assistant Director (Finance and Corporate Services) ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Officers tasked with treasury management responsibilities are engaged in regular financial and treasury training through attendance at selective seminars/workshops and treasury courses.

Treasury Management Advisors

The Council appointed Arlingclose as its Treasury Advisers in 2005. The provision of treasury advisory services was formally re-tendered in autumn 2014 and Arlingclose was reappointed. Among the various services received is **advice** on investment, debt and capital finance issues appropriate to the Council's individual circumstances and objectives.

The Council monitors the service through measuring:

- The timeliness of advice
- The returns from investments
- The accuracy of technical advice
- Regular market testing
- Regular internal meetings to discuss performance
- Direct access to a nominated advisor
- The quality and content of training courses

However, this doesn't divest the Council from its responsibility of its treasury decisions.

Financial Implications

The budget for investment income in 2015/16 is £461k, based on an average investment portfolio of £51.3 million at an interest rate of 0.9%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

APPENDIX A**EXISTING PORTFOLIO PROJECTED FORWARD**

	31/03/14 Actual £'000	31/03/15 Actual £'000	31/03/16 Estimate £'000	31/03/17 Estimate £'000
External Borrowing:				
<i>Long-term liabilities</i>				
• Finance Leases	511	334	248	203
Total External Debt	511	334	248	203
Investments:				
• Short term Deposits	18,500	20,000	27,000	27,000
• Monies on call and Money Market Funds	7,690	3,720	8,000	8,000
• Long term Deposits	2,000	0	4,000	4,000
• Bonds	10,750	20,651	5,000	5,000
• Property Fund & Other pooled funds	4,000	4,000	4,000	4,000
Total Investments	42,940	48,371	48,000	48,000
(Net Borrowing Position)/ Net Investment position	42,429	48,037	47,752	47,797

PRUDENTIAL INDICATORS 2014/15 TO 2016/17**Background:**

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Prudential Indicator 1 - Capital Expenditure:

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. The approved expenditure for 2014/15 and the estimates of capital expenditure to be incurred for 2015/16 and future years are:

	2014/15 Approved £'000	2015/16 Approved £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Approved capital schemes	4,561	5,637	304	0
Reserve schemes	1,847	3,463	600	0
Total Expenditure	6,408	9,100	904	0

The figures in the reserve scheme for 2015/16 is showing lower than in 2016/17. This is due to income already budgeted from previously approved schemes. The expenditure for 2017/18 is currently nil. This will change as anticipated capital projects are approved. Additional capital expenditure will also occur if new capital receipts are received and used to finance projects currently on the reserve list, as per the capital strategy.

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

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure. This shows how much of the revenue budget is committed to the servicing of finance.

Estimates of the ratio of financing costs to net revenue stream for the 2015/16 and future years, and the approved figures for 2014/15 are:

Portfolio	2014/15 Approved £'000	2015/16 Approved £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Financing Costs*	(226)	(461)	(416)	(438)
Net Revenue Stream	17,541	17,390	16,933	16,718
%*	(1.3)	(2.7)	(2.5)	(2.6)

*Figures in brackets denote income through receipts or reserves.

The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. The figures are in brackets due to investment income

outweighing financing costs significantly for SSDC. This shows the extent that the Council is dependent on investment income.

Prudential Indicator 3 - Capital Financing Requirement:

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

	2014/15 Approved £'000	2015/16 Approved £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Opening CFR (Actual 14/15)	9,624	9,484	9,361	9,316
Capital Expenditure	5,410	6,795	335	0
Capital Receipts*	(4,561)	(5,637)	(304)	0
Grants/Contributions*	(849)	(1,158)	(31)	0
MRP	(140)	(123)	(45)	(23)
Closing CFR	9,484	9,361	9,316	9,293

*Figures in brackets denote financing through receipts or reserves.

Prudential Indicator 4 – Gross Debt and the Capital Financing Requirement:

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

	2014/15 Revised £'000	2015/16 Revised £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	0	0	0	0
Finance leases	334	186	203	180
Total Debt	334	186	203	180

Total debt is expected to remain below the CFR during the forecast period

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

The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. Overall the authority is aiming to keep within the following exposure to fixed rates as and when market conditions improve.

	2014/15 % Limit	2015/16 % Limit	2016/17 % Limit	2017/18 % Limit
Fixed	80	80	80	80
Variable	100	100	100	100

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

	2014/15	2015/16	2016/17	2017/18

	% Limit	% Limit	% Limit	% Limit
Fixed	100	100	100	100
Variable	100	100	100	100

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

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

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Between 1-2 years	25,000	25,000	25,000	25,000
Between 2-3 years	20,000	20,000	20,000	20,000
Between 3-4 years	10,000	10,000	10,000	10,000
Between 4-5 years	10,000	10,000	10,000	10,000
Over 5 years	5,000	5,000	5,000	5,000

The estimates are considerably higher than the actual balances held in previous years to ensure the Council has sufficient flexibility to deal with any unexpected events. **The overall limit for maturities of greater than 364 days will not exceed 70% of the portfolio.**

Prudential Indicator 7 – Credit Risk:

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average long-term credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

The Council targets a portfolio average long-term credit rating of 'A' or higher. (This target rating is one notch above the Council's minimum rating criteria of A-.)

Other indicators of creditworthiness are considered in relative rather than absolute terms.

Prudential Indicator 8 - Actual External Debt:

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2015	£'000
Borrowing	0
Other Long-term Liabilities	334
Total	334

Prudential Indicator 9 - Authorised Limit for External Debt:

The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council has acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A £9.1m borrowing requirement has been identified to finance the capital programme and further borrowing may be undertaken to increase our borrowing to this level if and when it is the most cost effective way of funding SSDC's requirements. A ceiling of £12 million for each of the next three years is recommended, to allow flexibility to support new capital projects over and above the identified borrowing requirement.

	2014/15 Approved £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	11,000	11,000	11,000	11,000
Other Long-term Liabilities	1,000	1,000	1,000	1,000
Total	12,000	12,000	12,000	12,000

Prudential Indicator 10 – Operational Boundary for External Debt:

The Operational Boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt. A ceiling of £10 million is recommended for each of the next three years. The table overleaf shows that SSDC's current borrowing is well within this limit. This indicator more than covers the capital financing requirement.

The Assistant Director (Finance and Corporate Services) has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	2014/15 Approved £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	9,200	9,200	9,200	9,200
Other Long-term Liabilities	800	800	800	800
Total	10,000	10,000	10,000	10,000

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	2014/15 % Actual	2015/16 % Estimate	Lower Limit %	Upper Limit %
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100
40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed rated external borrowing at present the above upper and lower limits have been set to allow flexibility to borrow within any of the maturity bands.

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Increase in Band D Council Tax	0.07	0.17	0.17

Prudential Indicator 13 - Adoption of the CIPFA Treasury Management Code:

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

Adoption of the CIPFA Code of Practice in Treasury Management

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18 th April 2002.
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Arlingclose's Economic and Interest Rate Forecast

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Average
Official Bank Rate														
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.33
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75	1.17
Downside risk				-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-0.73
3-month LIBID rate														
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.35
Arlingclose Central Case	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.90	1.90	1.29
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20	-0.75
1-yr LIBID rate														
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.40
Arlingclose Central Case	1.10	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15	1.74
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25	-0.80
5-yr gilt yield														
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.55
Arlingclose Central Case	1.50	1.55	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.25	2.30	2.35	2.35	1.97
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-0.87
10-yr gilt yield														
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.55
Arlingclose Central Case	2.00	2.05	2.10	2.20	2.30	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.80	2.45
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-0.87
20-yr gilt yield														
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.55
Arlingclose Central Case	2.45	2.50	2.55	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	2.95	2.71
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20	-0.82
50-yr gilt yield														
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.55
Arlingclose Central Case	2.45	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.00	3.00	2.75
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15	-0.77

Underlying assumptions:

- The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP throughout this year.
- UK economic growth picked up as expected in Q2 following softer activity in Q1; the third estimate confirmed Q2 GDP growth was 0.7%, although the annual growth rate slowed to 2.4%, broadly in line with our expectation of 2.5% GDP growth for 2015.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will be supported by real wage and disposable income growth.
- The outlook for business investment is tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with the further fall in commodity prices, will remain so in the near-term. The CPI rate is likely to rise towards the end of 2015 due to baseline effects. The MPC is likely to look through temporary periods of very low inflation, as it has done when inflation has been well above the 2% target.
- The annual average earnings growth rate picked up to 2.9% in the three months to July. Real earnings and income growth are running at relatively strong levels and

could feed directly into unit labour costs and households' disposable income. The development of wage growth is one of the factors being most closely monitored by the MPC.

- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- The recent China-led stock market turbulence and rout in commodities have led to sharp falls in global equity indices, but they are unlikely to blow economic recovery in the UK and US off course. The more cautious members of the Bank of England's MPC and the US Federal Reserve may however delay voting to raise interest rates. A rate rise by the Fed in 2015 remains on the cards after a strong upward revision to Q2 GDP, but the weak external environment was a factor in the decision to hold the policy rate this month.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressures.

Arlingclose Forecast:

- Arlingclose forecast the first rise in official interest rates in Q2 2016. They project a slow rise in Bank Rate. The appropriate level for Bank Rate will be lower than the previous norm and will be between 2 and 3%.
- We project medium term gilt yields on a shallow upward path in the medium term, with continuing concerns about the Eurozone, and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and the Chinese stock market-led turmoil, are likely to prompt short term volatility in gilt yields.

APPENDIX D

Glossary of Terms

Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.

ECB	European Central Bank
Federal Reserve	The US central bank. (Often referred to as “the Fed”)
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
Gilt	Is a fixed rate security issued as debt and repaid at a future date.
IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a ‘dividend’
Maturity	The date when an investment or borrowing is repaid
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Pooled funds	See Collective Investment Schemes (above)
Prudential Code	Developed by CIPFA as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice
Prudential Indicators	Indicators determined by the local authority to define the its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
SI (Statutory Instrumeny)	Is the principal form in which delegated or secondary legislation is made in Great Britain.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United

	Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Supported Capital Expenditure	The financing element of Capital expenditure that is grant funded by Central Government
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Capital Expenditure	The financing of Capital expenditure is financed internally through the revenue budget
Yield	The measure of the return on an investment instrument

Agenda Item 9

Treasury Management Practices

Assistant Director: Donna Parham, Finance and Corporate Services
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Purpose of the Report

To request members of the Audit Committee approve the attached Treasury Management Practices (TMPs).

Recommendation

That members approve the attached Treasury Management Practices (Appendix 1)

Background

The CIPFA Code of Practice on Treasury Management in the public Services (the Code) was last revised in November 2011. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Council had adopted the original Code and has similarly adopted the revised 2011 Code in March 2014. The Code recommends the creation and maintenance of:

- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices comprise:

- TMP 1: Risk management
- TMP 2: Performance measurement
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

This follows the same format as last year in that the schedules supporting these practices are at a higher level giving an overview of the processes to be followed. The detail specifying the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions and any other documents supporting the processes are held at an operational level within an operations manual.

Financial Implications

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

Background Papers: *Cipfa Treasury Management Code of Practice*
Treasury Management Strategy Statement
Treasury Management Operations Manual

Treasury Management Practices

Principles and Schedules

November 2015



South Somerset District Council

Introduction

The CIPFA Code of Practice on Treasury Management in the public services (the Code) was last revised in November 2011. The Code requires for the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. South Somerset District Council has adopted the original Code and has similarly adopted the revised 2011 Code in March 2014. The Code recommends the creation and maintenance of:

A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities,

Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices (TMPs) comprise:

- TMP 1: Risk management
- TMP 2: Performance management
- TMP 3: Decision-making and analysis
- TMP 4: Approved instruments, methods and techniques
- TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6: Reporting requirements and management information arrangements
- TMP 7: Budgeting, accounting and audit arrangements
- TMP 8: Cash and cash flow management
- TMP 9: Money laundering
- TMP 10: Training and qualifications
- TMP 11: Use of external service providers
- TMP 12: Corporate governance

TMP 1: Risk management

All treasury management activities involve both risk and the pursuit of reward or gain for the council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The responsible officer will design, implement and monitor all arrangement for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP 6: Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.

1. **Credit and counterparty risk management: Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.**

Principle: The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4: Approved instruments, methods and techniques, are listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Schedule:

Criteria to be used for creating/managing approved counterparty lists/limits

- The Assistant Director – Finance and Corporate Services is responsible for setting prudent criteria and the Council's treasury advisors will also provide guidance and assistance in setting the criteria
- The criteria will be agreed by Audit Committee/Full Council
- The current criteria is contained within the operations manual
- The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support, CDS information). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties

Approved methodology for changing limits and adding/removing counterparties

- The Assistant Director – Finance and Corporate Services has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above

Counterparty list and limits

- A full individual listing of counterparties based on the criteria will be maintained. As credit ratings etc. are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis within the operations manual

Country, sector and group listings of counterparties and overall limits applied to each where appropriate

- Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits have been set for the above in terms of monetary value/percentage of overall portfolio, where appropriate

Details of credit rating agencies' services and their application

- The Council considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions

Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment

- The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information of share price. In addition the Corporate Director – Finance and Corporate Services reads quality financial press for information on counterparties
2. **Liquidity Risk Management: Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objective will be thereby compromised.**

Principle: The Assistant Director – Finance & Corporate Services will ensure the Council has adequate (though not excessive) cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme.

Schedule:

Cash flow and cash balances

- The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling 6 month cash flow forecast.
- The treasury team will seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.
- In order to achieve the maximum return from investments, a daily cash balance of +/- £100,000 is the objective for the Council's bank account

Short term investments

- The Councils uses various Reserve Accounts and Money Market Funds to manage its liquidity requirements. These accounts/funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.

Temporary Borrowing

- Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any point during the year.
- At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.

Bank overdraft and standby facilities

- The Council has an authorised overdraft limit with its bankers Natwest of £500,000 at an agreed rate of 1% over base rate. The facility is used as a contingency when temporary borrowing is difficult or more expensive, or for amounts of less than £200,000.
3. **Interest Rate Risk Management: Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.**

Principle: The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

Schedule:

Minimum/maximum proportions of fixed/variable rate debt/interest

- Borrowing/investments may be at a fixed or variable rate
- The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.
- In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effect of potentially disadvantageous changes.
- The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.

Managing changes to interest rate levels

- The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.
- The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.
- Interest rate forecasts are provided by the Council's advisors and are closely monitored by the treasury team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Audit Committee as necessary.
- For its investments, the Council also considers dealing from forward periods dependent upon market conditions

Details of approved interest rate exposure limits

- As per the Council's prudential indicators, the upper limit for variable interest rate investment as a proportion of total investments is 100%. In terms of long term borrowing, the Council can have no more than 80% in variable interest rate borrowings

Details of hedging tools used to manage risk

- The Authority's legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Authority does not intend to use derivatives to manage interest rate risk.
- Should this position change, the Authority will develop a detailed risk management framework governing the use of derivatives, but this will also require full Council approval.

4. **Exchange Rate Risk Management: The risk that the fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.**

Principle: The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuation in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Schedule:

Exchange rate risk management

- This Council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity.
 - If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.
 - At the present time statute prevents the Council borrowing in currencies other than Sterling. The Council has determined that all its investments will be in sterling.
5. **Refinancing Risk Management: The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and**

current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Principle: The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

Schedule:

Projected capital investment requirements

- 3 year projections are in place for capital expenditure and its financing of funding. Financing will be from capital receipts, reserves and any grants or contributions awarded. Funding will be from internal or external borrowing, as decided.
- As required by the Prudential Code, the Council will undertake options appraisal to evaluate the best capital expenditure financing route.
- The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.

Debt profiling, policies and practices

- Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.
- The Council will maintain through its treasury and capital systems reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancings.
- Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.

Policy concerning limits on revenue consequences of capital financings

- The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.
6. **Legal and Regulatory Risk Management: The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.**

Principle: The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 (1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers. Authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Schedule:

References to relevant statutes and regulations

- The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:
 - CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments
 - CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
 - CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
 - CIPFA Standard of Professional Practice on Treasury Management
 - The Local Government Act 2003
 - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments
 - The CLG's statutory Guidance on Minimum Revenue Provision (MRP)
 - The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments
 - The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
 - LAAP Bulletins
 - Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards)
 - Accounts and Audit Regulations 2003, as amended together with CLG's Guidance
 - The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets
 - Council's Constitution including:-
 - Standing Order relating to Contracts
 - Financial Regulations
 - Scheme of Delegation

Procedures for evidencing the organisation's powers/authorities to counterparties

- The Council's Financial Procedure Rules contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Audit Committee.
- The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.
- Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

Required information from counterparties concerning their powers/ authorities

- Lending shall only be made to institutions on the Council's authorised lending list.
- The Council will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial

banks who are on the Council's list of authorised institutions, thereby minimising legal and regulatory risk. The list of approved sources of borrowing is contained in TMP 4.

Statement on political risks and management of the same

- Political risk is managed by:
 - adoption of the CIPFA Treasury Management Code of Practice
 - adherence to Corporate Governance (TMP 12 – Corporate Governance)
 - adherence to the Statement of Professional Practice by the Assistant Director Finance & Corporate Services
 - the roles of the Audit Committee

7. **Fraud, Error and Corruption, and Contingency Management: This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.**

Principle: The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Schedule:

Details of systems and procedures to be followed, including Internet services

- Segregation of duties minimises the possibility of fraud and loss due to error and is detailed in TMP 5 Organisation, Clarity and segregation of responsibilities and, dealing arrangements.
1. Electronic Banking and Dealing
 - a) The Council's online banking service provided by Natwest is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data
 - b) Access to the Council's Treasury management drive is limited to those roles listed below, each having a separate log-on and password
 - Assistant Director – Finance & Corporate Services
 - Finance Manager
 - Principal Accountant
 - Management Accountant
 - Benefits and Control Officer
 - Insurance and Accounting Technician
 - c) Full procedure notes covering the day to day operation of the on-line banking system and the treasury management systems are documented and included within the operations manual.
 2. Standard Settlement Instructions
 - a) a list is maintained of named officers who have the authority to transact loans and investments
 - b) Brokers and counterparties with whom the Council deals direct are provided a copy of the Standard Settlement Instructions list

3. Payment authorisation

- a) payments can only be authorised by an agreed signatory(ies) of the council, the list of signatories having previously been agreed with the Council's bank
- b) inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts

Verification

- Loans and investments will be maintained in registers which will include fees and brokerage paid.
- Transactions will be cross checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.

Substantiation

- The Treasury Management spreadsheets are reconciled with financial ledger codes at the end of each month and at the financial year end.
- Working papers are retained for audit inspection.
- The bank reconciliation is carried out monthly from the bank statement to the financial system.

Internal Audit

- Internal Audit carry out regular reviews of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.

Contingency Management

- All treasury spreadsheets are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the IT department to restore files, if necessary.
- If the electronic banking system fails the Council have to contact the bank via telephone who will provide balances for the day. If any CHAPS payments are to be made manual forms are completed and faxed/taken to the bank before 12 noon so they can be processed on the Council's behalf.

Insurance Cover details

- The Council has Fidelity guarantee insurance cover. Details of the provider and cover are held by the Insurance and Accounting Technician.
8. **Market Risk Management: This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.**

Principle: This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Schedule:

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc)

- Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks, capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.
- Additionally the following risk control guidelines are set for each fund as part of the fund management agreement to control market risk :
 - (a) Maximum weighted average duration of the fund;
 - (b) Maximum permitted exposure to gilts/bonds;
 - (c) Maximum maturity of any instrument.

Accounting for unrealised gains/losses

- The method of accounting for unrealised gains or losses on the valuation of financial assets comply with the Accounting Code of Practice
- VNAV pooled funds will be treated as Available for Sale Assets. Segregated fund with external managers will be treated as Fair Value through Profit or Loss.

TMP 2: Performance Measurement

Principle: The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.

Schedule:

Policy concerning methods for testing value for money

- Best value reviews will include the production of plans to review the way services are provided by :
 - Challenging
 - Comparing performance
 - Consulting with other users and interested parties
 - Applying competition principlesin order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

Policy concerning methods for performance measurement

- Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury

Management Strategy and the Council's Prudential Indicators and to enhance accountability.

- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.
- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.
- Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to
 - 1) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and
 - 2) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.
- In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.

Methodology to be applied for evaluating the impact of treasury management decisions

- Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of the budget monitoring reports to Audit Committee on a quarterly basis.
- The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments.
- The Council's Treasury Management advisors compare the performance of the Council's in-house funds against all its other clients and submits the results quarterly.

Benchmarks and calculation methodology with regard to risk and return

- Investment returns are compared to the 7-day LIBID benchmark. For Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.

Best Value

- The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives.
- When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations.

TMP 3: Decision Making and Analysis

Principle: The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedule:

Major treasury decisions

- As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either:
 - a) Changes to Prudential Indicator(s) during the course of the financial year
 - b) Options Appraisal to determine a funding decision
 - c) raising a new long-term loan / long-term source of finance
 - d) prematurely restructuring/redeeming an existing long-term loan(s)
 - d) investing longer-term (i.e. in excess of 1 year)
 - f) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a corporate body)
 - g) leasing
 - h) change in banking arrangements
 - i) appointing/replacing a treasury advisor
 - j) appointing/replacing a fund manager

Process

- The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.
- Based on the Annual Treasury Management Strategy, the Principal Accountant will prepare monthly for the ensuing 24 months rolling forecasts of the financing, borrowing and surplus cash requirements of the Council, for the purpose of:
 - applying the strategy on a day to day basis
 - monitoring the results of the strategy
 - recommending amendments to the strategy to the Audit Committee where applicable during the course of the year.

Delegated powers for treasury management

- The Assistant Director – Finance & Corporate Services has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.

Issues to be addressed, evaluation, authorisation

- In exercising these powers, the Assistant Director – Finance & Corporate Services and those to whom the treasury activity have been delegated will
 - have regard to the nature and extent of any associated risks to which the Council may become exposed;
 - be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;
 - be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail;
 - ensure that the perceived credit risk associated with the approved counterparties is judged satisfactory and is within agreed limits;
 - be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive;
 - follow best practice in implementing the treasury transaction.

- In exercising Borrowing and Funding decisions, the responsible person will:
 - evaluate economic and market factors that may influence the manner and timing of any decision to fund;
 - consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;
 - consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
 - consider ongoing revenue liabilities created.

- In exercising Investment decisions, the responsible person will:
 - Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;
 - consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;
 - consider the alternative investment products and techniques available if appropriate.

Processes to be followed

- The processes to be followed will be in keeping with TMP 4: The Council's Approved, Instruments, Methods and Techniques.

Evidence and records to be kept

- The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for a historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.

- Records and working papers will be maintained by the Council electronically, and in relevant files.

TMP 4: Approved Instruments, Methods and Techniques

Principle: The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk Management.

Schedule:

Approved treasury management activities

- The Council is permitted to undertake the following activities:
 - Managing cashflow
 - Capital financing
 - Borrowing including debt restructuring and debt repayment
 - Lending including redemption of investments
 - Banking
 - Leasing
 - Managing the underlying risk associated with the Council's capital financing and surplus funds activities.

- The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

Approved capital financing methods and types/sources of funding

- On balance sheet
 - Public Works Loans Board (PWLB) loans
 - long term money market loans including LOBOs
 - temporary money market loans (up to 364 days).
 - bank overdraft
 - loans from bodies such as the European Investment Bank (EIB)
 - Stock issues
 - Finance Leases
 - Deferred Purchase
 - Government and EU Capital Grants
 - Lottery monies
 - Other Capital Grants and Contributions
 - PFI/PPP
- Internal Resources
 - Capital Receipts
 - Revenue Balances
 - Use of Reserves
- Off balance sheet
 - Operating Leases
 - Structured Finance
- The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

Approved investment instruments

- The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).
- The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply.
 - Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF), and UK local authorities
 - Term deposits with banks and building societies
 - Certificates of deposit
 - Callable deposits

- Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
- Gilts
- Bonds issued by multilateral development banks
- Bonds issued by financial institutions guaranteed by the UK government
- Sterling denominated bonds by non-UK sovereign governments
- Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534
- Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534
- Bonds and debt instruments issued by corporate bodies e.g.
 - Corporate bonds
 - Commercial Paper
 - Floating Rate Notes
 - Asset Backed Securities
- The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the manager

Use of Derivatives

- The Council intends to use derivative instruments for the management of risks, limited to those set out in the annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.
- Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Authority does not intend to use derivatives. Should this position change, the Authority may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements

Principle: The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the responsible officer in respect of treasury management are set out in the schedule below. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Schedule:

- Limits to responsibilities at Executive levels

Council

- Budget consideration and approval.
- Approval of amendments to the Treasury Management Strategy, the organisation's adopted clauses and treasury management policy statement
- Approval of annual report on Treasury Management

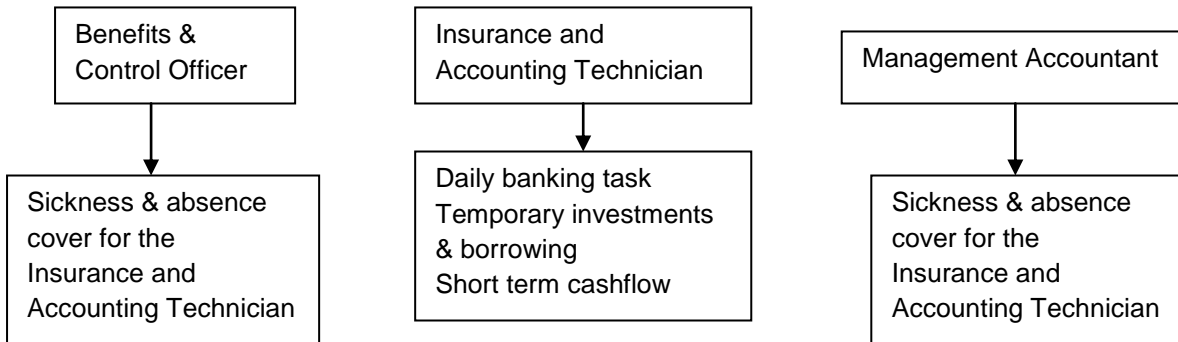
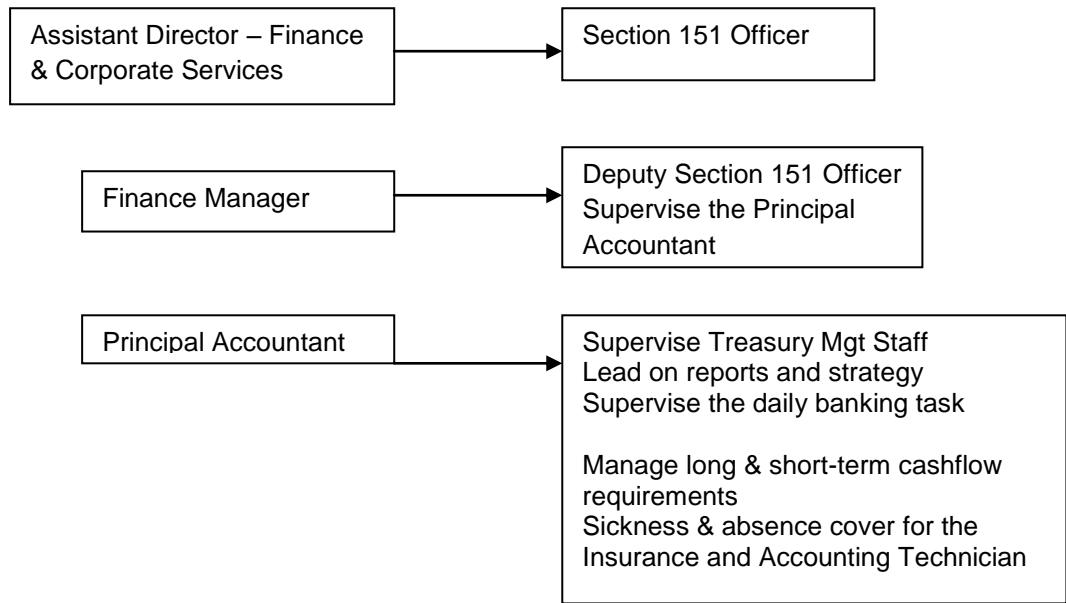
Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities
- Receiving and reviewing Prudential Indicators as part of the budget setting process
- Receiving and reviewing external audit reports and acting on recommendations
- Approving the Treasury Management Practices
- Approving the selection of external service providers and agreeing terms of appointment
- Overview of Treasury Management function

- Principles and practices concerning segregation of duties

- Officers involved in the daily banking task are not to undertake bank reconciliation duties.
- Authorised signatories signing CHAPS forms are not to authorise that payment on the Bankline system.

- Statement of duties/responsibilities of each treasury post



Statement of duties/responsibilities of each treasury post

Assistant Director – Finance & Corporate Services

1. The Assistant Director – Finance and Corporate Services will:
 - a) Recommend clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance
 - b) Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy
 - c) Submit regular treasury management policy reports
 - d) Submit budgets and budget variations
 - e) Receive and review management information reports
 - f) Review the performance of the treasury management function and promote best value reviews
 - g) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
 - h) Ensure the adequacy of internal audit, and liaising with external audit
 - i) Recommend the appointment of external service providers.
- 2 The Assistant Director – Finance & Corporate Services has delegated powers in consultation with the Assistant Director – Legal & Corporate Services through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.
- 3 The Assistant Director – Finance & Corporate Services may delegate her power to borrow and invest to members of her staff. The Finance Manager, Principal Accountant, Corporate Accountant, Insurance and Accounting Technician or Benefits & Control Officer must conduct all dealing transactions, or staff authorised by the Assistant Director – Finance & Corporate Services to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
- 4 The Assistant Director – Finance & Corporate Services and the Assistant Director – Legal & Corporate Services will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- 5 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Assistant Director – Finance & Corporate Services to be satisfied, by reference to the Monitoring Officer (Assistant Director – Legal & Corporate Services), the Organisation's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Organisation's Financial Regulations
- 6 It is also the responsibility of the Assistant Director – Finance & Corporate Services to ensure that the Organisation complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

Principal Accountant

The responsibilities of this post will be:-

- a) Adherence to agreed policies and practices on a day-to-day basis
- b) Supervising treasury management staff
- c) Monitoring performance on a day-to-day basis
- d) Monitoring responsibility of the Treasury Management Budget
- e) Managing long and short term cashflow

- f) Overseeing and authorising execution of transactions
- g) Submitting management information reports to the responsible officer

Chief Executive Officer

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the Assistant Director – Finance & Corporate Services reports regularly to the responsible committee/the Council on treasury policy, activity and performance.

Monitoring Officer

The responsibilities of this post will be: -

- a) Ensuring compliance by the Assistant Director – Finance & Corporate Services with the treasury management policy statement and treasury management practices and that they comply with the law
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice
- c) Giving advice to the Assistant Director – Finance & Corporate Services when advice is sought.

Internal Audit (SWAP)

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and procedures
- b) Reviewing division of duties and operational practice
- c) Assessing value for money from treasury activities
- d) Undertaking probity audit of treasury function.

Absence cover arrangements

- In the absence of the Assistant Director – Finance & Corporate Services, the Finance Manager shall take on board the responsibilities and duties of the Assistant Director – Finance & Corporate Services.
- Under the supervision of the Principal Accountant, the general day to day activities shall be undertaken by the Insurance and Accounting Technician. However this may be from time to time passed onto the Benefits & Control Officer or the Management Accountant
- In the absence of the Principal Accountant her responsibilities and duties will be undertaken by the Finance Manager or the Assistant Director – Finance & Corporate Services (or officers authorised by her to act as temporary cover) supported by the rest of the Treasury Management team.

Dealing limits

- Currently there is a £5m upper limit in the total value of out-going CHAPS transactions in any one day without reference to the National Westminster Bank plc. Transactions that will exceed the £5m limit will be referred back to the Treasury team for explanation.

List of approved brokers

- Martins Brokers (UK) plc, 25 Dowgate Hill, London, EC4R 2BB
- London Currency Brokers, LCB House, 3 Scrutton Street, London, EC2A 4HF
- Prebon Yamane (UK) Ltd, 155 Bishopsgate, London, EC2N 3DA
- Tradition (UK) Ltd, Beaufort House, 15 St Botolph Street, London, EC3 7QA

Policy on brokers' services

- It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a spread of business between them in order to avoid relying on the services of any one broker. Any changes to the list of approved brokers will not be made without prior consultation to with the Assistant Director – Finance & Corporate Services.

Policy on taping of conversations

- In line with good practice, all conversations relating to deals with either brokers or direct dealing institutions are recorded. The recordings are to be kept for a period of one year.

Direct dealing practices

- Direct dealing is carried out with institutions identified in the Operations Manual subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Council will ensure that each counterparty has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.

Settlement transmission procedures

- The preferred method of transmitting information relating to all deals is by email. Alternative methods are Royal Mail and fax.

Documentation requirements

- Copy of CHAPS form confirming transmission of funds to counterparty
- Broker/direct dealer documentation confirming counterparty, deal amount, maturity date and rate.

Arrangements concerning the management of third-party funds.

- The following funds are managed by South Somerset District Council:
 - Joint Burial Committee
 - Dorcas House Trust
 - ACI Chard Regeneration Scheme

However, there are still small amounts of money held on behalf of third parties that have been held for many years. These sums are immaterial and absorbed into the cash balances of the Council. There being no further interest payable, the principal will be repaid to the third party on the production of appropriate documentation.

TMP 6: Reporting Requirements and Management information arrangements

Principle: The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, Full Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Audit Committee will receive regular monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.

Schedule:

Frequency of executive reporting requirements

- The responsible officer will annually submit budgets and will report on budget variations as appropriate.
- The responsible officer will submit the Prudential Indicators and the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to Full Council before the start of the year.
- The Annual Treasury Report will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.
- A Mid-Year Treasury Report will be prepared by the responsible officer, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Full Council during the year.
- All of the above reports will also be submitted to Audit Committee, who will be responsible for the scrutiny of treasury management policies and practices.

Content of Reporting: 1. Prudential Indicators

- The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of:
 - Financing costs as a proportion of net revenue stream (estimate; actual)
 - Capital expenditure (estimate; actual)
 - Incremental impact of capital financing decisions (estimate)
 - Capital Financing Requirement (estimates; actual)

- Authorised limit for external debt
 - Operational boundary for external debt
 - Actual external debt
 - Upper limits on fixed and variable rate interest exposures
 - Upper and lower limits to maturity structure of fixed rate borrowing
 - Upper limit to total of principal sums invested longer than 364 days.
- The Prudential Indicators are approved and revised by Full Council and are integrated into the Council's overall financial planning and budget process.
 - The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content of Reporting: 2. Treasury Strategy Statement including the Annual Investment Strategy

- The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:
 - Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years
 - Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt
 - the extent to which surplus funds are earmarked for short term requirements
 - the investment strategy for the forthcoming year(s)
 - the minimum to be held in short term/specified investments during the coming year
 - the interest rate outlook against which the treasury activities are likely to be undertaken.
- Based on the ODPM's (now CLG's) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out
 - the objectives, policies and strategy for managing its investments;
 - the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances;
 - the limits for the use of Non-Specified Investments.
- The AIS will be integrated into the Treasury Strategy Statement.
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content of Reporting: 3. Annual Treasury Report

- The Principal Accountant will produce an annual report for Full Council on all activities of the treasury management function as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.
- The main contents of the report will comprise:

- confirmation that the Council calculated its budget requirements and set a balanced budget for the forward year;
 - the prevailing economic environment
 - a commentary on treasury operations for the year, including their revenue effects;
 - commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council
 - compliance with agreed policies/practices and statutory/regulatory requirements
 - compliance with Prudential Indicators;
 - performance measures.
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content of Reporting: 4. Mid-Year Treasury Report

- The Principal Accountant will produce a mid-year report for Full Council on the borrowing and investment activities of the treasury management function (including performance of fund managers) for the first six months of the financial year.
- The main contents of the report will comprise:
 - Economic background
 - Economic forecast (including interest rates forecast)
 - Treasury Management Strategy Statement update
 - Performance versus benchmarks
 - Borrowing information (including premature repayment, new loans information)
 - Information on investments, including current lending list
 - Prudential indicators relating to treasury management
 - Governance framework and scrutiny arrangements
- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

Content and frequency of management information reports

- Management information reports will be prepared every month by the Principal Accountant and will be presented to the Assistant Director – Finance & Corporate Services
- These reports will contain the following information: -
 - Information on investment in Bonds, Certificates of Deposits and Treasury Bills.
 - Details of in-house investments, including interest to date, benchmark rate and rate achieved, and forecast of interest for the remainder of the year.
 - Details of fees payable.
 - Forecast of surplus/deficit for the financial year against budget.
 - Narrative highlighting any areas of concern or areas of note.

TMP 7: Budgeting, accounting and audit arrangements

Principle: The Responsible Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function,

together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The form which the Council's budget will take is set out in the schedule below.

The Responsible Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule:

Statutory/regulatory requirements

- The framework for accounting in local government in the UK comes from the Code of Practice on Local Authority Accounting in Great Britain, A Statement of Recommended Practice (SORP), and guidance issued by CIPFA.

Proper accounting practice

- CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

Financial Statements

- The financial statements are produced annually. The current form of the Council's accounts is available within the Finance department.

Treasury-related information requirements of external auditors

- The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.
- Information in this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.
 - Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.

- Prudential Indicators.
 - Treasury Management Strategy including Annual Investment Strategy.
- Investments:
 - Investment transactions during the year including any transaction-related costs
 - cash and bank balances at year end
 - Short-term investments at year end
 - Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end
 - calculation of (i) interest received (ii) accrued interest
 - actual interest received
 - External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
 - Basis of valuation of investments
 - Evidence of existence and title to investments (e.g. Custodian's Reports; FRAG-21 report from Custodian.
 - Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.
 - Cash Flow:
 - Reconciliation of the movement in cash to the movement in net debt
 - Cash inflows and outflows (in respect of long-term financing)
 - Cash inflows and outflows (in respect of purchase/sale of long-term investments)
 - Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources

Internal Audit

- Internal Audit generally conducts an annual review of the treasury management function and probity testing.
- The internal auditors will be given access to treasury management information/documentation as required by them.

Compliance with CIPFA Treasury Management and Prudential Codes

- Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.
- Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.

TMP 8: Cash and cash flow management

Principle: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [2] liquidity risk management. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

Schedule:

Arrangements for preparing /submitting cash flow statements

- The Principal Accountant oversees the Insurance and Accounting Technician who prepares the monthly cash flow statement and the daily cash flow statement. Information from both statements is then used to plan investments. The forecasts should be maintained for a minimum of six months ahead.
- The Principal Accountant also prepares a long-term cash flow forecast covering the current financial year and the next two financial years.
- The cash flow forecasts and statements are held at operational level.
- The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.

Content and frequency of cash flow projections

- The detailed annual cash flow model includes the following:
 - revenue income and expenditure based on the budget.
 - profiled capital income and expenditure as per the capital programme

Monitoring, frequency of cash flow updates

- The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with:
 - net RSG and NNDR payments as notified;
 - precept payments
 - actual salaries and other employee costs paid from account bank statements;
 - actual payments to Inland Revenue from general account bank statements;
 - actual council tax received
 - actual rent allowances paid
 - actual housing benefit;
 - actual capital programme expenditure and receipts.

Bank statements procedures

- The Council has access to view bank statements on its banking system as required. These are reconciled to the general ledger on a monthly basis.

Payment scheduling

- Major payments to creditors are pre-arranged and usually bypass the normal creditors cheque processing, ie they are paid via the CHAPS system. Of the remaining creditors, statute requires that invoices are paid within 30 days of receipt. Current agreed practice is that invoices will be paid within 10 working days or in accordance with the creditors supplier terms, this is in line with the prompt payment code we have signed up to.

Monitoring debtor/ creditor levels

- Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report to the service managers which includes an analysis of debt by age.
- The level of Creditor invoices being processed is monitored on a monthly basis by the Exchequer Services Team.

Banking of funds

- Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received in the incomes team are banked daily.
- All the Council's sections are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the particular insurance limits for the Council's premises.

Listing of sources of information

- The treasury function receives cash flow information for the following:-
 - Government information eg NNDR/RSG payments and dates
 - Information from other outside bodies eg Somerset County Council precepts and dates
 - Debtor payments
 - Creditor payments
 - Housing Benefit payments
 - Direct Debit payments
 - Monthly salaries & wages
 - Capital Programme

Practices concerning prepayments to obtain benefits

- Payments received in advance by debtors are credited to their respective account. No interest or discount is given for early settlement.

TMP 9: Money Laundering

Background: The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
- Acquiring, using or possessing criminal property.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

Principle: The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff members involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.

Schedule:

Anti money laundering policy

- This Council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.
- The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.

Treasury documentation

- The Authority will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include:
 - Awareness of what constitutes money laundering;
 - The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed;
 - Maintaining up-to-date direct dealing and SSI mandates with counterparties

Nomination of Responsible Officer

- The Council has nominated the Assistant Director – Finance & Corporate Services to be the responsible officer to whom any suspicions relating to transactions involving the Council will be communicated.
- The responsible officer will be conversant with the requirement for the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.
- The responsible officer will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).

Procedures for establishing the Identity of Lenders and Borrowers

- In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.

- The Council will not accept loans from individuals.
- In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.
- The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Financial Services Authority's website www.fsa.gov.uk.
- All receipts/disbursements of funds will be undertaken by CHAPS settlement.
- Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed.
- All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.
- If the Authority takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals.

TMP 10: Training and qualifications

Principle: The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Assistant Director – Finance & Corporate Services will recommend and implement the necessary arrangements.

The responsible officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Schedule:

Qualifications/ experience for treasury staff

- CCAB part or fully qualified
- Member of the Association of Accounting Technicians part or fully qualified

Details of approved training courses

The courses/events the Council would expect its treasury personnel to consider are

- Certificate in International Treasury Management – Public Finance (this is the new CIPFA TM qualification run by the Association of Corporate Treasurers)

- Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA and IPF
- Any courses/seminars run by Treasury Management Consultants.
- Attending CIPFA Conference
- Training attended by those responsible for scrutiny of the treasury function

Records of training received by treasury staff

- The Council participates in the CIPFA/ACCA/CIMA Employer Accreditation Schemes for CPD purposes which is based on planning, recording and evaluating development. Employees are required to register with the scheme and declare participation in the CPD scheme annually.

TMP 11: Use of external service providers

Principle: The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule below.

Schedule:

Banking services

- Service provided by: National Westminster Bank plc
- Contract commenced 1/10/14 and runs until 31/3/20.
- Payments due quarterly in arrears and monthly for the electronic banking service.
- Terms for early termination of the contract: The organisation may terminate the agreement at any time by 3 months' written notice to the Manager and the Manager may terminate the agreement on 3 months' written notice to the organisation.

Money-broking services

- Providers of service:-
 - Martin Brokers (UK) plc
 - Prebon Yamane
 - London Currency Brokers
 - Tradition UK

Cash/fund management services

- None

Consultants'/advisers' services

- Name of supplier of service – Arlingclose Ltd.
- Contract commenced 1 March 2015 and expires on 28th February 2018, with the option to extend for a further two years in accordance with the relevant terms of the agreement
- Payments due annually on 1 April
- Terms for early termination of the contract: The Council may terminate the agreement by giving three months notice after 28th February 2018.

Bribery Act

- The Council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers

TMP 12: Corporate governance

Principle: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule:

- *List of documents to be made available for public inspection.*
 - Annual Statement of Accounts
 - Budget Book
 - Treasury Management Policy
 - Treasury Management Strategy
 - Budget Monitoring Reports
 - Annual Treasury Report
 - Council Committee Agendas and Minutes

Council's website

- Financial information is additionally available on the Council's website

Procedures for consultation with stakeholders

- Members and senior officers of the Council are consulted via reports to Management Board and District Executive and officer/member briefing sessions

Agenda Item 10

Update on the Fraud and Data Service

Assistant Director Ian Clarke, Legal and Corporate Services
Lead Officer Lynda Creek, Fraud and Data Manager
Contact Details: lynda.creek@southsomerset.gov.uk or 01935 462204

Purpose

To update Audit Committee (AC) on current issues around the Fraud and Data Service; particularly resourcing, for fraud matters and data protection work

Recommendation

That the issues facing the Fraud and Data Service be noted.

Background and Update on Key Issues

During the past 6 months there have been significant changes to the Fraud and Data Service: -

1. The existing Investigations' Team transferred to Department of Work and Pensions (DWP), as part of Single Fraud Investigation Service (SFIS), in June 2015. With the transfer, all responsibility for investigating housing benefit fraud transferred too. Importantly, though, the investigation of Council Tax Support/Reduction fraud (CTR) etc remains with SSDC as well as a whole tranche of the team's other workload which did not transfer e.g. management of the National Fraud Initiative (NFI) data match work for the whole council. Additionally, of course, the proactive corporate fraud work to prevent, detect and punish fraud remains.
2. Tom Chown, the Fraud and Data Intern left on the 31st August 2015 and his work in progressing corporate fraud work will be missed. A new Intern, Jack Chant, started on the 9th November 2015 and is developing his knowledge of fraud matters.
3. The Fraud and Data Manager (FDM) took flexible retirement from the 1st August 2015 and is now contracted to work 21 hours per week on corporate fraud, data management and major contract issues. In reality, with leave and extra leave extracted, this amounts to a little over 2 days a week (without any allowance being made for training, corporate matters and sick leave etc) and so there is, effectively, very little internal resource to cover these areas.
4. The loss of the Investigations Team is matched by the loss of the DWP subsidy to fund investigations. A sum of £50K p.a. was included in the Medium Term Financial Plan (MTFP) to resource fraud work £15K of which was used in point 5 below.
5. A successful joint bid (led by Taunton Deane Borough Council with West Somerset District Council and SSDC) to the Department of Communities and Local Government (DCLG) delivered a total of £110K available over a 2 year period for corporate fraud work. The funds are subject to match funding by the 3 councils (£15K p.a. for SSDC) and achieving the saving targets set out in the bid so is not guaranteed.

6. The total funding received has been used to establish a separate, shared investigations team under the auspices of the South West Audit Partnership (SWAP) called the South West Counter Fraud Team (SWCFT). The team is led by Nick Hammacott who transferred from his auditor role. Two Investigation and Intelligence Support Officers have been recruited; each of whom has a law related degree. The new staff will receive specialist investigation training in the last quarter of 2015/16 to enable them to deal with criminal investigations and court preparation.
 7. At present there is no legal agreement in place for the SWAP arrangement but more importantly the agreement to deal with data protection issues – which is a legal requirement, is still outstanding. These documents have been drafted and it is hoped that the data protection issue, at least, will be resolved soon.
 8. Incidentally, the Council has to report, publically and to the Government, on the resources allocated to counter fraud work. There is a clear expectation from government that councils will be proactively fight fraud, and it is likely that failure to do so will bring criticism and possible financial consequences too.
 9. For data protection work, the start base was low, in that there was no framework in place when responsibility for it transferred from SWAP. Some steps have been put in place e.g. each service has a data protection nominee to whom greater training has been given and who acts as first point of contact for staff and over 625 SSDC staff and volunteers have received awareness training on data protection issues since 2012. We remain vulnerable should there be any significant breaches of the Data Protection Act 1998 (DPA) as we have identified issues but have not had the resources to address them.
 10. An external audit in 2012 highlighted that the data protection arrangements at SSDC were not 'fit for purpose' and, amongst the many recommendations, advised that the Fraud and Data Manager was seriously overloaded and should be given additional help. A request to MB for additional resources, in 2013, was rejected, because of the financial savings required that year. No progress has been made on addressing the audit recommendations.
 11. In addition the log of data protection issues, raised by staff and managers at staff awareness sessions, or otherwise, runs into the 100s and are not being progressed. Neither of the Interns who came to assist with this work lasted more than a few weeks and it is true to say that the data protection work is more complex and technical than counter fraud work and so more difficult to get to grips with easily.
 12. For breaches of the Act a monetary penalty of up to £0.5m can be levied where serious damage or distress occurs as well as a range of other and enforcement action. A copy of the fines levied by the Information Commissioner is attached for information. Additionally, new European Data Protection Regulation is expected shortly which brings fundamental changes – and substantial challenges – to organisations and these will need to be addressed.
 13. A report on these issues led Management Team, on the 16th November 2015, to support the creation of a Grade 4 Fraud and Data Officer post to assist the Fraud and Data Manager in progressing these matters. Provision has been made within the revenue budget to fund this post and an update on the recruitment will be given at the meeting.
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Data Controller	Sector	Nature	Final Amount
A4E	Public Service Provider	Theft of unencrypted laptop containing personal data	60,000
Hertfordshire County Council	Local Government	Fax error - leading to disclosure of personal data	100,000
London Borough of Ealing	Local Government	Theft of unencrypted laptop containing personal data. Linked to ENF0370051	80,000
London Borough of Hounslow	Local Government	Theft of unencrypted laptop containing personal data. Linked to ENF370035	70,000
Andrew Jonathan Crossley (ACS Law)	Private (sector) Business - Legal Services	Personal data exposed following inadequate web-hosting security	1,000
Surrey County Council	Local Government	Various incidents concerning the disclosure of personal data via email to incorrect recipients	120,000
North Somerset Council	Local Government	Various incidents concerning the disclosure of personal data via email to incorrect recipient	60,000
Midlothian Council	Local Government	Various incidents relating to the disclosure of personal data to the incorrect recipients	140,000
Worcestershire County Council	Local Government	Disclosure of personal data via email to incorrect recipients	80,000
London Borough of Croydon	Local Government	Personal data stolen from a public house	100,000
Powys County Council	Local Government	Disclosure of personal data to incorrect recipient	130,000
Brighton & Sussex University Hospitals NHS Trust	Health	Insecure disposal of hard drives containing personal data	325,000
Norfolk County Council	Local Government	Personal data hand delivered to incorrect recipient	80,000
Cheshire East Council	Local Government	Disclosure of personal data via email to unintended recipients	80,000
Lancashire Constabulary	Police	Missing persons report containing personal data found in the street	70,000
Telford and Wrekin District Council	Local Government	Personal data sent in error to incorrect family	90,000
Aneurin Bevan Health Board	Health	Personal data disclosed in error to incorrect recipient	70,000
Central London Community NHS Trust	Health	Multiple faxes containing personal data sent to incorrect recipient	90,000
London Borough of Barnet	Local Government	Case papers containing personal data stolen from staff members house	70,000
St Georges Healthcare NHS Trust	Health	Personal data disclosed in error to incorrect recipient	60,000
Belfast Health and Social Care Trust	Health	Personal data stored in decommissioned hospital site accessed	225,000
Welcome Financial Services Ltd	Private (sector) Business - finance	Loss of unencrypted back up tape containing personal data	150,000
Torbay Care NHS Trust	Health	Personal data published in error on Council's website	175,000
Scottish Borders Council	Local Government	Paper documents relating pension records found in a supermarket recycling bank.	250,000
Greater Manchester Police	Police	Unencrypted USB containing personal data stolen	150,000
Leeds City Council	Local Government	Personal data disclosed in error to incorrect recipient	95,000
Prudential	Private (sector) Business - Finance	Inaccuracy of customer records	50,000
Nursing and Midwifery Council	Regulators	DVDs containing personal data lost	150,000
Norwood Ravenswood	Adoption Agency	Personal data left outside of residential property	70,000
Devon County Council	Local Government	Personal data disclosed in error to incorrect recipient	90,000
Plymouth City Council	Local Government	Personal data disclosed in error to incorrect recipient	60,000
Sony	Private (sector) business - technology	Infiltration of online network resulting in exposure of personal data	250,000
Stoke on Trent City Council	Local Government	Disclosure of personal data via email to incorrect recipient	120,000
London Borough of Lewisham	Local Government	Personal data left on a train	70,000
Bank of Scotland	Private (sector) Business - finance	Multiple faxes containing personal data sent to incorrect recipient	75,000
Stockport Primary Care Trust	Health	Confidential waste bins and black plastic bags containing personal data discovered in decommissioned building	100,000
NHS Surrey	Health	Insecure disposal of hard drives containing personal data	200,000
Halton Borough Council	Local Government	Personal data disclosed in error	70,000
Glasgow City Council	Local Government	Two unencrypted laptops containing personal data stolen from offices whilst the building was undergoing refurbishment	150,000
North Staffordshire Combined Healthcare NHS Trust	Health	Multiple faxes containing personal data sent to incorrect recipient	55,000
Aberdeen City Council	Local Government	Personal data uploaded onto the internet.	100,000

Data Controller	Sector	Nature	Final Amount
First Financial (UK) Limited	Private (sector) Business – Finance	Sending unsolicited direct marketing texts to mobile subscribers who had not consented to receive them.	175,000
North East Lincolnshire Council	Local Government	Loss of unencrypted memory device containing sensitive personal data	80,000
Ministry of Justice	Central Government	Spreadsheets showing prisoners' details emailed to members of the public	140,000
Islington Borough Council	Local Government	Personal details of over 2,000 residents released online via WDTK website	70,000
Jala Transport	Private (sector) Business - Finance	Theft of unencrypted portable hard drive containing its customer database	5,000
Tameside Energy Services Ltd	sector) Business Home Improvements	Making unsolicited marketing calls to individuals registered with the TPS	45,000
DM Design Bedrooms Ltd	Private (sector) Business - Home Improvements	Making unsolicited marketing calls to individuals registered with the TPS	90,000
Christopher Niebel	Private (sector) Business - Lead Generation	Sending unsolicited direct marketing texts to mobile subscribers who had not consented to receive them	300,000
Gary McNeish	Private (sector) Business - Lead Generation	Sending unsolicited direct marketing texts to mobile subscribers who had not consented to receive them	140,000
Nationwide Energy Services Ltd	Private (sector) Business - Energy Related Home Improvements	Making unsolicited marketing calls to individuals registered with the TPS	125,000
We Claim U Gain	Private (sector) Claims management	Making unsolicited marketing calls to individuals registered with the TPS	100,000
Department of Justice Northern Ireland	Government	Filing cabinet containing details of a terrorist incident was sold at auction	185,000
British Pregnancy Advice Service	Charity	Hacker threatened to publish thousands of names of people who sought advice on abortion, pregnancy and contraception	200,000
Chief Constable of Kent Police	Police	Highly sensitive and confidential information, including copies of police interview tapes, were left in a basement at the former site of a police station.	100,000
Amber UPVC Fabrications Limited	Private (sector) Business - Home Improvements	Making unsolicited marketing calls to individuals registered with the TPS	50,000
Think W3 Limited	Private (sector) Business – Online travel services	Hacker obtained large number of credit & debit card details following the use of insecure coding on the website of a subsidiary business	150,000
Ministry of Justice	Public – Central Government	Loss of hard drives containing sensitive and confidential information at prisons	£180,000
Reactiv Media Limited	Private (sector) Business	Making unsolicited marketing calls to individuals with the TPS	£50,000
EMC Advisory Services Limited	Private (sector) Business	Making unsolicited marketing calls to individuals registered with the TPS	£70,000
Worldview Limited	Private (sector) Business – Hotel booking website		£7,500
Parklife Manchester Limited	Private (sector) Business – Music Festival Organiser	Sending of unsolicited marketing text messages by disguising the identity of the person on whose behalf the messages were sent	£70,000
Kwik Fix Plumbers Limited previously known as Boiler Shield Ltd	Private (sector) Business - Home Improvements	Making unsolicited marketing calls to individuals registered with the TPS	£90,000
Staysure.co.uk Limited	Private (sector) Business	Specialist online travel insurer offering additional travel insurance services to the general public	£175,000
Serious Fraud Office	Public –Government	A witness in a serious fraud, bribery and corruption investigation was mistakenly sent evidence relating to 64 other people involved in the case	£180,000
Direct Assist Ltd	Private (sector) Business	Making direct marketing calls to people without their consent	£80,000
South Wales Police	Police	The loss of 3 DVDs containing interviews with a victim of historic sexual abuse	£160,000
Instant Cash Loans Ltd trading as the Money Shop	Finance	The theft and loss of servers containing customer data.	£180,000
Point One Marketing Ltd	Marketing	Making unsolicited marketing calls to individuals registered with the TPS	£50,000
Cold Call Elimination Limited	Marketing	Making unsolicited marketing calls to individuals registered with the TPS	£75,000

Data Controller	Sector	Nature	Final Amount
Home Energy & Lifestyle Management Ltd	Marketing	A green energy company who made over six million calls as part of a automated call marketing campaign offering 'free' solar panels.	£200,000
Pharmacy 2U Limited	Health & Retail and Manufacture	An online pharmacy that sold details of more than 20,000 customers to marketing companies. It had not informed its customers that it intended to sell their details, and that the customers had not given their consent for their personal data to be sold on.	£130,000
Help Direct UK Limited	Marketing	Sending out thousands of unsolicited marketing text messages. People complained about a variety of messages offering services including the reclaim of PPI payments, bank refunds and loans.	£200,000
Crown Prosecution Service	Criminal Justice	Laptops containing videos of police interviews were stolen from a private film studio	£200,000
Oxygen Ltd	Online technology and telecoms	A lead generation company made over one million calls, playing a recorded message claiming to be a 'government awareness call' and offering to write off debt	£120,000

Agenda Item 11

Audit Committee Forward Plan

Assistant Director: Donna Parham, Finance and Corporate Services
Lead Officer: Becky Sanders, Democratic Services Officer
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Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendation

Members are asked to comment upon and note the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

Background Papers: *None*

Audit Committee – Forward Plan

Committee Date	Item	Responsible Officer
17 Dec '15 TBC	<ul style="list-style-type: none"> • Certification and update report • Annual Governance Statement Action Plan 	Donna Parham Donna Parham
28 Jan '16	<ul style="list-style-type: none"> • Annual Fraud Programme • Debt Write Offs report • Register of staff interests – annual review • Risk Management Update 	Lynda Creek Amanda Card Ian Clarke Gary Russ
25 Feb '16	<ul style="list-style-type: none"> • Treasury Management Strategy and Prudential Indicators for 2015/16 (needs to go to Full Council in March. • Annual Governance Statement Action Plan • Treasury Management – third quarter monitoring report • Internal Audit – third quarter update • External Audit – Certification of Housing benefit Subsidy Claim 	Karen Gubbins Donna Parham Karen Gubbins Donna Parham Donna Parham
24 Mar '16	<ul style="list-style-type: none"> • Risk Management Update • Health, Safety and Welfare (Annual Report) • Internal Audit Plan – approve 16/17 plan • Internal Audit – Charter • External Audit – Audit Plan 	Gary Russ Pam Harvey Jo George Jo George Donna Parham