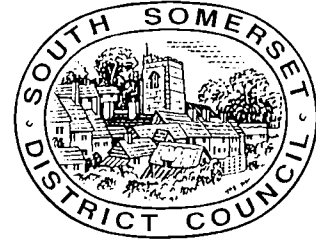


South Somerset District Council

Notice of Meeting



**South Somerset
District Council**

Making a difference where it counts

Thursday 16th November 2017

7.30 pm

**Council Chamber
Council Offices
Brympton Way
Yeovil, BA20 2HT**

(disabled access and a hearing loop are available at this meeting venue)



All members of Council are requested to attend this meeting:

If you would like any further information on the items to be discussed, please contact the Democratic Services Manager on 01935 462148 or democracy@southsomerset.gov.uk

This Agenda was issued on Wednesday 8 November 2017.

Ian Clarke, Director (Support Services)

This information is also available on our website
www.southsomerset.gov.uk and via the mod.gov app



INVESTORS IN PEOPLE

South Somerset District Council Membership

Chairman: Mike Best
Vice-chairman: Tony Capozzoli

Clare Aparicio Paul	Kaysar Hussain	Jo Roundell Greene
Jason Baker	Val Keitch	Dean Ruddle
Cathy Bakewell	Andy Kendall	Sylvia Seal
Marcus Barrett	Jenny Kenton	Gina Seaton
Mike Beech	Mike Lewis	Peter Seib
Neil Bloomfield	Sarah Lindsay	Garry Shortland
Amanda Broom	Mike Lock	Angie Singleton
Dave Bulmer	Tony Lock	Alan Smith
Hayward Burt	Paul Maxwell	Sue Steele
John Clark	Sam McAllister	Rob Stickland
Nick Colbert	Graham Middleton	Gerard Tucker
Adam Dance	David Norris	Andrew Turpin
Gye Dibben	Graham Oakes	Linda Vijeh
Sarah Dyke	Sue Osborne	Martin Wale
John Field	Tiffany Osborne	William Wallace
Nigel Gage	Stephen Page	Nick Weeks
Carol Goodall	Ric Pallister	Colin Winder
Anna Groskop	Crispin Raikes	Derek Yeomans
Peter Gubbins	Wes Read	
Henry Hobhouse	David Recardo	

Information for the Public

The meetings of the full Council, comprising all 60 members of South Somerset District Council, are held at least 6 times a year. The full Council approves the Council's budget and the major policies which comprise the Council's policy framework. Other decisions which the full Council has to take include appointing the Leader of the Council, members of the District Executive, other Council Committees and approving the Council's Constitution (which details how the Council works including the scheme allocating decisions and Council functions to committees and officers).

Members of the Public are able to:-

- attend meetings of the Council and its committees such as Area Committees, District Executive, except where, for example, personal or confidential matters are being discussed;
- speak at Area Committees, District Executive and Council meetings;
- see reports and background papers, and any record of decisions made by the Council and Executive;
- find out, from the Executive Forward Plan, what major decisions are to be decided by the District Executive.

Meetings of the Council are scheduled to be held monthly at 7.30 p.m. on the third Thursday of the month in the Council Offices, Brympton Way although some dates are only reserve dates and may not be needed.

The agenda, minutes and the timetable for council meetings are published on the Council's website – www.southsomerset.gov.uk/councillors-and-democracy/meetings-and-decisions

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

The Council's corporate aims which guide the work of the Council are set out below.

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

South Somerset District Council - Council Aims

South Somerset will be a confident, resilient and flexible organisation, protecting and improving core services, delivering public priorities and acting in the best long-term interests of the district. We will:

- Protect core services to the public by reducing costs and seeking income generation.
- Increase the focus on Jobs and Economic Development.
- Protect and enhance the quality of our environment.
- Enable housing to meet all needs.
- Improve health and reduce health inequalities.

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South Somerset District Council

Thursday 16 November 2017

Agenda

1. Apologies for Absence

2. Minutes

To approve and sign the minutes of the previous meeting held on Thursday, 21st September 2017.

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), 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.

Members are reminded that they need to declare the fact that they are also a member of a County, Town or Parish Council as a Personal Interest. Where you are also a member of Somerset County Council and/or a Town or Parish Council within South Somerset you must declare a prejudicial interest in any business on the agenda where there is a financial benefit or gain or advantage to Somerset County Council and/or a Town or Parish Council which would be at the cost or to the financial disadvantage of South Somerset District Council.

4. Public Question Time

5. Chairman's Announcements

Items for Discussion

6. Chairman's Engagements (Pages 6 - 7)

7. Notification of an Urgent Executive Decision - Somerset Business Rate Pool and 100% Business Rates Retention Pilot (Pages 8 - 44)

8. Treasury Management Strategy Statement and Investment Strategy 2017/18 - Mid-year review (Pages 45 - 72)

9. Increase in Councillors and change of name of Barwick Parish Council - Community Governance Review (CGR) (Pages 73 - 87)

10. Report of Executive Decisions (Pages 88 - 92)

11. Audit Committee (Pages 93 - 95)

12. Scrutiny Committee (Pages 96 - 99)

13. Motions

There were no Motions submitted by Members.

14. Questions Under Procedure Rule 10

There were no questions submitted under Procedure Rule 10.

15. Date of Next Meeting (Page 100)

Agenda Item 6

Chairman's Engagements

13th October

The Chairman and his wife enjoyed a performance of '9 to 5 the musical', performed by the Yeovil Amateur Operatic Society at the Octagon Theatre.

14th October

At the invitation of the Mayor of Chard, the Chairman and his wife joined him to walk in the main procession at Chard Carnival.

15th October

The Chairman and his wife attended the West Somerset Chairman's Civic Service held at St Mary Magdalene Church in Winsford.

15th October

The Vice-Chairman and his wife attended a Service of Thanksgiving and Reflection at Harvest Time with the Somerset Young Farmers, Wells Cathedral School and representatives from rural life in Somerset.

18th October

The Chairman attended the SCC Chairman's Awards for Service to the Community at Bridgwater Rugby Club.

The Vice-Chairman and his wife attended a gathering at Wells Cathedral to hear about the issues, challenges and development in combatting modern slavery.

22nd October

The Chairman and his wife attended the Annual Burnham on Sea and Highbridge Civic Service.

23rd October

The Chairman hosted the Gold Star Awards Event at the Octagon Theatre.

26th October

The Chairman and his wife attended the Somerset County 2017-18 Poppy Appeal Launch which was held at the Museum of Somerset.

1st November

The Chairman and his wife attended Countess Gytha Primary School in Queen Camel to celebrate a visit from HRH the Countess of Wessex.

3rd November

The Chairman attended the Yeovil College University Centre's Official Graduation Ceremony which took place at Westlands Entertainment Venue.

10th November

The Chairman and his wife attended the Weston Super Mare Civic Event on the evening of the Winter Carnival, held at the Winter Gardens.

12th November

The Chairman will be attending the Yeovil Town Council Remembrance Service.

The Vice-Chairman will be attending the Chard Remembrance Service at St Mary's Church, Chard.

Agenda Item 7

Notification of an Urgent Executive Decision – Somerset Business Rate Pool and 100% Business Rates Retention Pilot

Executive Portfolio Holder: Councillor Peter Seib, Finance and Legal Services
Director: Ian Clarke, Support Services
Lead Officers: Paul Fitzgerald, S151 Officer
Contact Details: Paul.fitzgerald@southsomerset.gov.uk or 01935 462226

Purpose of the Report

1. The purpose of this report is to advise the Committee of the urgent decision taken under Section 3 – 47 (4) of the Council's Constitution – whereby an Urgent Decision is one that is considered by the Chief Executive to be necessary to protect the interests of, or advancing the business of, the council. All such actions in all cases are reported to the next appropriate meeting of the District Executive. This decision was made by the Chief Executive, in consultation with the Leader of the Council and the Finance and Legal Services portfolio holder in relation to a submission to the Secretary of State for Communities and Local Government to become a pilot for the 100% Business Rates Retention in 2018/19.
2. Due to timing of the next District Executive the Leader has agreed that this report is presented directly to Full Council.

Public Interest

3. This report impacts on the Council's share of retained business rates retention funding, and the related opportunities and risks. There are two elements to the decision:
 - a) Joining a new Somerset Business Rates Pool for 2018/19 financial year which would apply, if approved by Government, under the 50% Business Rates Retention (BRR) system.
 - b) Applying for Somerset to be a new pilot area for 100% Business Rates Retention in 2018/19.
4. Both options are projected to provide an increase in the amount of funding retained locally, and under the 50% BRR Pool will broaden the risk and risk-sharing across Somerset's county and district authorities.

Recommendation

5. That Full Council:
 - a) Endorse the urgent decision, made by the Chief Executive in conjunction with the Leader of the Council and the Finance & Legal Services Portfolio Holder, that the Council participates in the pooling arrangement with other Somerset authorities (Somerset County Council, Mendip District Council, Sedgemoor District Council, Taunton Deane Borough Council, West Somerset Council) under the 50% Business Rates Retention scheme for 2018/19.

- b) Endorse the urgent decision to apply to Government for the Somerset Business Rates Pool comprising the county and five districts to become a pilot area for 100% Business Rates Retention in 2018/19 financial year.
- c) Approve delegated authority to the S151 Officer, in consultation with the Portfolio Holder for Finance and Legal Services, to decide whether to remain in the Pool, if approved by Government, the 100% BRR Pilot scheme when the Government's Provisional Settlement details are announced in December 2017.

Background

The Pooling System

6. The current 50% Business Rates Retention system was introduced in 2013/14 financial year as part of a wider suite of changes implemented following the Local Government Finance Review. This system has therefore formed a key part of the annual budget setting and reporting for several years.
7. This system includes the potential for groups of local authorities to apply to pool business rates resources. South Somerset District Council joined a business rates pool (comprising SSDC plus Bath and North East Somerset, North Somerset, Somerset County Council (SCC), Taunton Deane Borough Council (TDBC), Mendip District Council (MDC), and Sedgemoor District Council (SDC)) with effect from April 2015. This was considered by District Executive on 4 December 2014 and endorsed by Full Council on 14 December 2014.
8. The previous Pool demised pooling arrangement ended on 31 March 2017, having been in operation for two years, as one of the member authorities became a member of a new pilot for 100% BRR in 2017/18. A smaller pool was formed in 2017/18 comprising SCC, MDC and SDC.

A New BRR Pool for 2018/19 and 100% BRR Pilot Scheme

9. On 1 September issued an invitation to local authorities to pilot 100% business rates retention in 2018/19 – for one year only – and to pioneer new pooling and tier-split models. The prospectus and supporting information is available on the Government's website:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/654936/Pilots_1819_Prospectus.pdf

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/643595/Supplementary_information_pooling.pdf

10. The first set of pilots for 100% BRR were launched in 2017/18. The Government has indicated it would like to see other authorities form pools and apply for pilot status. In assessing applications the Government has set out criteria. This includes aspects that would suggest (but of course not guarantee) the potential for a successful Somerset bid, such as:
 - proposed pooling arrangements operate across a functional economic area i.e. the county council(s) and all relevant district councils
 - the Government is particularly interested in piloting in two-tier areas

- Government intends to focus on rural areas
 - there is a variation in the types of business rates base represented
11. The pilot areas will retain 100% of business rates growth above the baseline. Under the 50% system, half of this growth is paid over to Government. This provides an opportunity therefore to keep more funding locally, and the Government has indicated it is looking for authorities to show how the additional retained resources would be of benefit locally:
 - the proposals would promote the financial sustainability of the authorities involved
 - there is evidence of how pooled income from growth will be used across the pilot area
 12. Following the publication of the prospectus the S151 Officers within the six local authorities in Somerset sought to assess the potential gains from establishing a wider Pool and applying to be a pilot for 100% BRR. We engaged LG Futures, as specialist advisors, to undertake an initial assessment and having considered the analysis, advantages and disadvantages, the S151 Officers believe the case for a countywide pool and becoming a pilot is overwhelming. We therefore considered it was worth investing in further analysis and preparing an application to become a pilot for 100% BRR in 2018/19. We engaged LG Futures on a 'no win no fee' arrangement whereby we will only pay them if our application to become a pilot area is successful.
 13. Ongoing discussions have taken place between S151 Officers and internally at officer and member level within individual local authorities. The S151 Officers do not believe there are any wider impacts either on local businesses or partners requiring consultation.
 14. It is expected DCLG will announce successful applications for new pools and pilot areas through the provisional Local Government Finance Settlement in December 2017. This will set the starting point for the new business rates and will confirm the tariffs, top up and levy rates for each council, together with their spending baselines and should confirm the benefits arising through this pooling arrangement.
 15. Councils have the opportunity, during the 30-day financial settlement consultation period, to decide to withdraw from a pooling arrangement if they decide that it does not offer the benefits they had thought. Through the application to become a 100% BRR pilot we have had to indicate what, if any, pooling arrangement we prefer and at this stage we have indicated that we wish to establish a new Somerset-wide pool even if the pilot bid is unsuccessful.
 16. If following the provisional Local Government Finance Settlement the benefits and risks are no longer favourable the pool application could be withdrawn with no pool in place for 2018/19. In this scenario it is anticipated authorities would have the opportunity to apply to form a new pool in the following or later years if they wish. It is not known whether pilots for 100% BRR will be extended beyond 2018/19, or whether new applications to be a pilot will be invited in later years.

Reasons for an emergency decision

17. The Prospectus was released by Government in September, with a deadline for submissions of 27 October 2017. This provided limited time for the Councils to engage expert support, undertake initial analysis of the potential gain, assess the opportunities and risks, and outline plans for use of the additional resources. The timing of available

information meant an urgent decision was required in order to meet the Government's deadline.

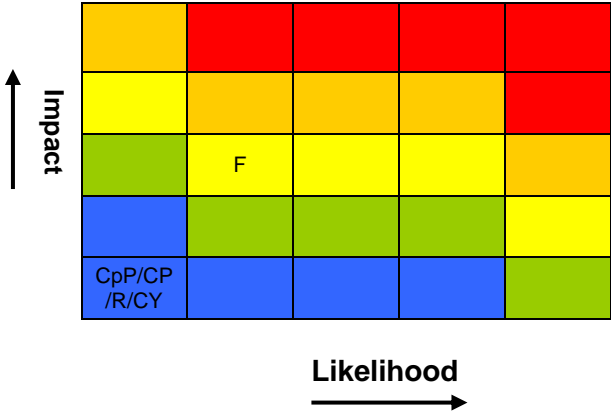
Financial Implications

18. It is important to highlight that the financial implications are based on indicative estimates of future business rates income, which can be affected by a variety of variable factors. The actual financial gains of pooling will not be confirmed until the end of the financial year in question. However the modelling suggests the potential financial benefits are considerable, albeit not without risk.
19. The principle put forward by the authorities within the pool is that each council should be no worse off than if it were to remain outside the pool. This means that the pool shares the risk of maintaining the safety net position for each individual council as a 'first call' on pooling gains. Each council is exposed to risk of volatility in its business rates income, most notably in respect of appeals. Each Council has made financial provisions in respect of any remaining outstanding appeals on the 2010 Valuation List in 2016/17, and will assess the appropriate level of provision required for outstanding appeals prior to the pool coming into existence.
20. The funding baseline, tariffs and top ups for individual authorities and the pool will be confirmed as part of the Provisional Settlement in December, and business rates budgets will be set in January 2017 using up to date information to support the estimates used. This will confirm the expected benefits of pooling and of being a pilot for 100% BRR. The prospectus indicated that the Safety Net for a 50% pool will remain at 92.5% of Baseline, and that under a 100% Pilot the Safety Net would rise to 97% of Baseline – reducing the risk of losses.
21. The Government have recently confirmed that any new 100% BRR pilots for 2018/19 will benefit from a 'no detriment' clause within the funding agreement (as with the five pilots agreed in 2017/18), which will remove the risk of volatility in respect of 100% BRR gains in 2018/19. The fine detail of the 'no detriment' clause will be clarified in practice if the application is successful.
22. The analysis undertaken to assess the potential financial benefits, and potential benefit sharing arrangements, has indicated that a Somerset Pool would benefit by an estimated £4.4m (compared to acting as individual authorities) and a further £10.3m if the bid to be a pilot area for 100% BRR is successful. This is summarised in the table below, with SSDC potentially gaining by approximately £1.0m if projected income estimates prove to be accurate.

	Projected Potential Gain in 50% BRR Pool £m	Projected Additional Gain under 100% BRR Pilot £m	Total Projected Gain if 100% BRR Pilot £m
Mendip	0.8	0.9	1.7
Sedgemoor	1.0	1.1	2.2
South Somerset	0.5	0.5	1.0
Taunton Deane	0.2	0.5	0.7
West Somerset	0.6	0.7	1.3
Somerset County	1.2	6.6	7.8
TOTALS	4.4	10.3	14.7

23. The proposed priority areas for allocating the additional resources are set out in the submission. It is anticipated that the Councils will have some flexibility on specific use, and will demonstrate the benefits to DCLG as part of the learning under the pilot scheme.

Risk Matrix



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Corporate Priority Implications

- 24. The financial benefits of pooling for business rates and becoming a pilot for 100% BRR will align with the Financial Strategy approved by District Executive in September 2017, which set out to keep the potential benefits of pooling under review.
- 25. The proposals for investing will complement the corporate priorities of providing high quality and cost effective services and to promote a strong economy with thriving urban and rural businesses.

Carbon Emissions and Climate Change Implications

26. None.

Equality and Diversity Implications

27. None.

Background Papers

Pilot Prospectus – see links within the Background section above
Somerset Business Rates Pilot Proposal and Annex A & B

Somerset Business Rates Pilot Business Case

October 2017

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2. Governance Arrangements	1
3. Additional Supporting Evidence	2

Supporting Information:

Appendix A – Proposed Pilot Area

Appendix B – Signatures from the Somerset authorities

Appendix C – Use of the additional resources

Appendix D – Rurality

Appendix E – Economic Activity

Appendix F – Business Rates Base Profile

As separate documents:

Annex A – Governance Arrangements for a Somerset Pool

Annex B – Governance Arrangements for a Somerset Pilot

Introduction

The Somerset county area is pleased to present its business case for 100% business rates retention pilot status for 2018/19. Our business case follows the structure set out in DCLG's invitation of 1 September 2017.

1. Membership Details/Housekeeping

- (i) **Membership.** Our proposal is for a Somerset pilot consisting of Somerset County Council, Mendip DC, Sedgemoor DC, South Somerset DC, Taunton Deane BC and West Somerset Council, as shown in **Appendix A**. It is therefore representative of all authorities in the Somerset two tier county area, allowing the pilot to take advantage of existing working relationships between the authorities and act in the best economic and wider interests of the area as a whole.
- (ii) **Support.** **Appendix B** sets out the supporting signatures from each of the applicant authorities.
- (iii) **Alternative pooling arrangements.** If the application for a Somerset pilot was unsuccessful, a pool consisting of the same membership is requested to be put in place for 2018/19. This pool would use the pooling governance arrangements as set out in **Annex A**.
- (iv) **No detriment.** It is Somerset's understanding that all of the new pilots for 2018/19 will now receive this protection.
- (v) **Lead authority.** Mendip District Council would act as the lead authority.
- (vi) **Preceptors.** The Devon and Somerset Fire and Rescue Service would remain at a 1% local share and operate outside of the pilot.

2. Governance Arrangements

- (vii) **Governance agreement.** The key points from the proposed pilot governance arrangements (see **Annex B** for the full document) are set out below.
 - Districts will increase their share to 50% and the county will increase its share to 49%. This would allow existing budget commitments to be met, whilst providing additional resources for additional local priorities.
 - Providing that there are sufficient resources, no authority shall receive less than if it was operating under the current 50% scheme.
 - In the highly unlikely event that the pilot makes an overall net loss, or the pilot has outstanding liabilities, this will be pro rata'd across all authorities, taking into account resource levels, had the pilot not been in operation.
- (viii) **Longer term pool operation.** Within the current spending review period there are limitations as to what can be achieved in terms of pooling gains and losses, given authorities have budget plans in place. However, beyond this period, a single county business rates baseline, meaning risks and rewards would be shared across the county area would be possible. This type of approach would

reduce the volatility to individual authorities of business rates collected (e.g. due to appeals) and also events such as future resets (and the subjective way in which NNDR Baselines will need to be determined). Whilst all authorities would hope for a favourable revised baseline following a reset, in reality it is just as likely that they could receive a baseline that would not provide sufficient resources to reach their Baseline Need figure (under a full reset). Therefore, a single NNDR Baseline across the larger area would smooth potential winners and losers and provide a more stable funding system.

The creation of a Somerset Pilot would help begin the process towards this longer term view, by establishing the necessary working practices, such as consistent approaches to forecasting and appeals.

Whilst the guidance states that pilots would be for 2018/19 only, if permitted, Somerset would seek to continue the arrangements in 2019/20. This would allow the forecast benefits to continue for a further year, providing greater scope for improvement and investment locally and allowing further progress in a joined-up approach to the collection and use of business rates income.

- (ix) **Sharing additional growth.** Pilot status would be used to promote financial stability and sustainability, through: (i) providing resources for a local productivity and infrastructure fund, (ii) providing additional resources to invest in service areas to improve budget sustainability and reduce future years' budget pressures and (iii) increasing the resources available for investment in economic regeneration schemes.

Further details of how the additional resources are to be used is provided in **Appendix C**, these include:

- Using the Local productivity and Infrastructure Fund to finance strategic investment that supports economic growth and increased prosperity in Somerset;
- A range of projects to support further economic growth and prosperity across the districts areas;
- Supporting transformational activity to improve services to customers, modernise ways of working and providing cost efficiencies to support financial stability and sustainability

3. Additional Supporting Evidence

- (x) **Benefits to the area, wider national benefits and financial case.** As with all the existing pilot areas and those that will apply for 2018/19, local forecasts suggest that Somerset will benefit financially from becoming a pilot area. Latest business rates income projections suggest a Somerset Pilot in 2018/19 will provide at least an additional £10m for the area.

As set out above, it is expected that a Somerset pilot will bring a number of local benefits. A summary of the local benefits and wider benefits to DCLG and the Treasury are listed below:

Increased economic prosperity in the area/nationally

- Reduced worklessness (and benefit payments)
- Increasing tax revenue (personal and corporation)
- Increased business rates revenues

Learning points for the business rates retention scheme

- Trial of a 50% district and 49% county split of business rates revenues
- Identifying the potential to manage appeals' risk at a county-wide level, including determining appeals' provision and apportioning losses evenly
- The establishment of a technical working group to improve the administration of business rates locally
- Regular contact/meetings with DCLG by the working group to discuss identified local best practice, including learning points and how the pool is dealing with emerging issues relating to both the pilot and any national issues e.g. policy changes/appeal trends

Additional resources for Somerset

- Higher levels of investment in economic regeneration, leading to future gains under the business rates retention scheme
- Greater financial stability and confidence, through shared working practices and increased local knowledge.

(xi) **Two-tier areas.** Somerset supports government in recognising the need for pools to act and be structured differently to how they largely operate at the moment. It also proposes to amend the local split to reduce gearing (i.e. the ratio of baseline need to NNDR baseline), in order to reduce windfall gains and the potential to hit the safety net.

However, a key aim of a Somerset pool would be to consider how to begin to share risks and rewards across all authorities, thereby making the level of business rates income between individual billing authorities and their preceptor of lesser importance.

Somerset therefore proposes a 50% district and 49% county split for the two-tier area. This approach therefore reflect the fact that the current system creates too highly geared district councils and does not provide sufficient growth to county councils, whilst recognising that in the short term, existing budget commitments need to be met.

(xii) **Somerset characteristics and business rates base.** The proposed pool is highly rural. West Somerset and Mendip are classified as 'mainly rural', South Somerset and Sedgemoor as 'largely rural', and Taunton Deane as 'urban with significant rural'. Further details are provided in **Appendix D**.

Appendix E sets out the economic profile of the area. It shows that Somerset is characterised by relatively sparse clusters of business activity. The areas of most dense employment correspond to the largest population settlements, notably the towns of Taunton, Yeovil and Bridgwater.

The proposed pool is a largely self-contained labour market, with 85% of employed

residents within the county also working within the county.

Some of the districts are reliant on other pool members as a key source of employment: for example, 18% of Sedgemoor's employed residents, and 16% of West Somerset's employed residents, commute to work in other authorities in the proposed pool. The main commuter destination for both these districts is Taunton Deane. In turn, 11% of employed residents in Taunton Deane commute to other pool authorities, the main destinations being Sedgemoor and South Somerset. Mendip's economic activity is also heavily interdependent with Bristol, Bath and Wiltshire, in addition to the rest of Somerset. This indicates the labour market extends beyond the administrative boundaries of these individual districts, and that there are interdependencies that would incentivise a joined-up approach to economic development. These incentives for coordinated development could be greatly reinforced by pooling.

Appendix F provides evidence of particular business rates taxbase characteristics for Somerset which includes:

Power station

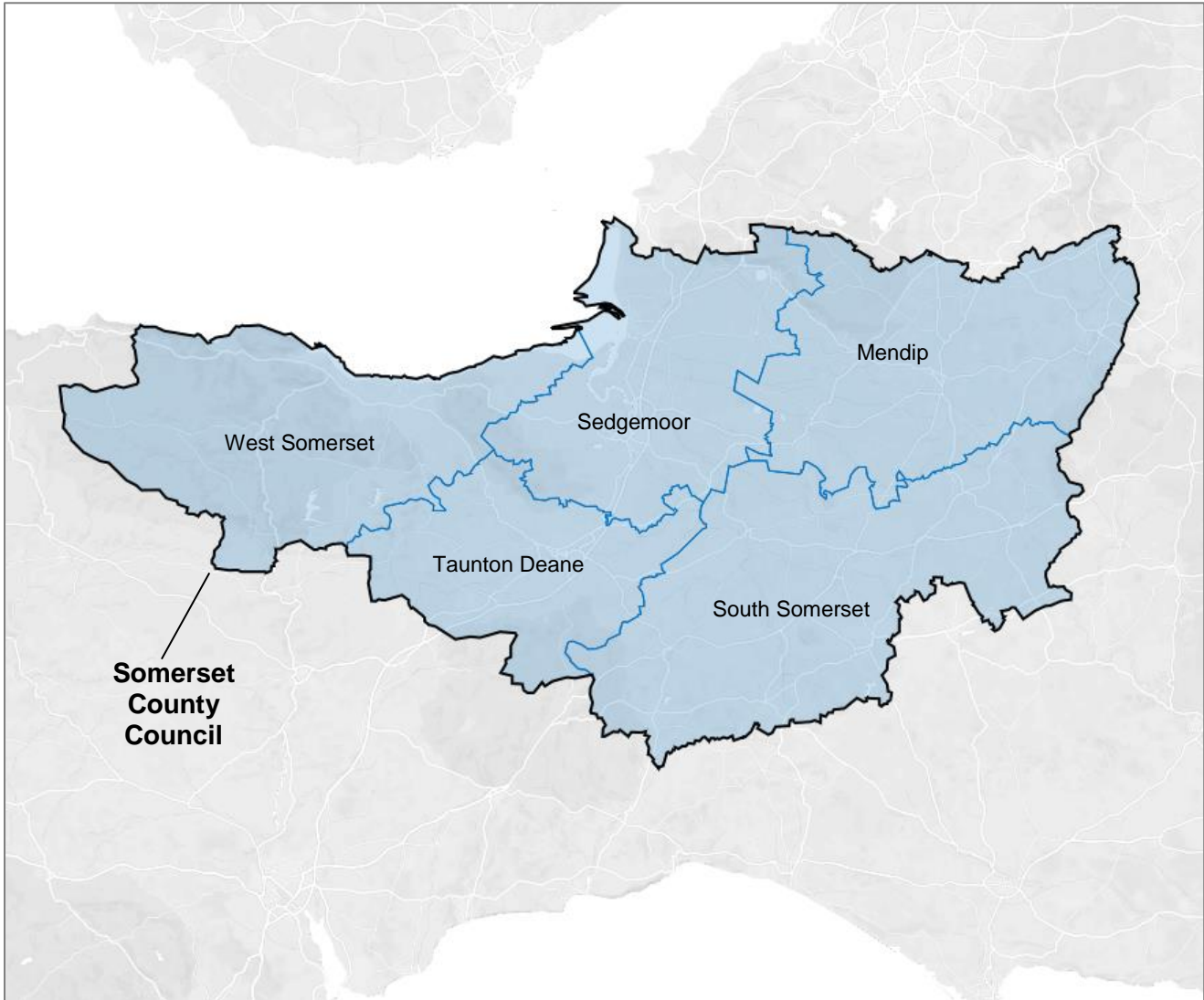
Somerset is home to three generations of nuclear power stations located in the district of West Somerset: Hinkley Point A (HPA), Hinkley Point B (HPB), and Hinkley Point (HPC). The decommissioning of HPA commenced in 2000. HPB is currently the only operating power station at Hinkley Point. Commissioned in 1976, it has a net electrical output of 0.87GW and is currently operating below maximum capacity. The station was due to be decommissioned in 2016, but its life has been extended until 2023. HPC will be the first new nuclear power station in the UK for a generation, capable of generating 7% of the UK's total energy requirement.

Enterprise Zone

Sedgemoor is hosting a government supported Enterprise Zone based on Huntspill Energy Park. Expansion, infrastructure and development is required to deliver this site.

Appendix A – Local Authority Pilot Membership

Figure 1 – Map of proposed pilot area

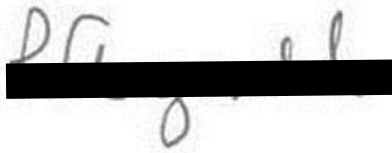


Appendix B – Signatures

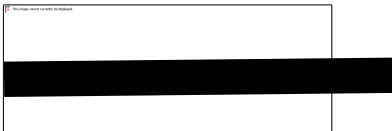
The relevant signatures from all of the Somerset authorities in support of this business case and a 2018/19 Somerset Business Rates Pilot are provided below.



Alison Turner
Group Manager – Finance and s151 Officer
Sedgemoor District Council



Paul Fitzgerald
Assistant Director – Strategic Finance and S151
Officer of Taunton Deane Borough Council and West
Somerset Council and S151 Officer of South
Somerset District Council



Paul Deal
Corporate Financial Advisor (S151 Officer)
Mendip District Council



Kevin Nacey
Director of Finance and S151 Officer
Somerset County Council



Appendix C – Use of the additional resources

Local Productivity and Infrastructure Fund

Of the additional 50% additional resources received under pilot status, it is proposed that a proportion of the resources will be used for a local productivity and infrastructure fund to finance strategic investment that supports economic growth and increased prosperity in Somerset.

A programme of investment via the fund would be commissioned with the overall aim of raising productivity in the Somerset economy in line with the objectives of the Heart of the South West Productivity Strategy and the Somerset Growth Plan.

This programme of investment will be aligned with the three thematic objectives from the Productivity Strategy:

- Leadership and knowledge (i.e. supporting business growth and innovation; improving management practices and performance across the economy);
- Connectivity and infrastructure (i.e. developing a more resilient and better connected infrastructure); and
- Working and learning (i.e. developing skills and employability across the workforce).

The six authorities will be able to identify individual schemes for the programme, with encouragement given to the promotion of schemes jointly by authorities in partnership. The Somerset Growth Board will act as a joint advisory body, recommending investment priorities arising from this in line with these three overall objectives from the Productivity Strategy.

The Somerset Growth Board's membership comprises representation from each of the six Somerset local authorities (cabinet member for ED typically), plus Exmoor National Park Authority, a FE sector representative and business representation (Somerset Chamber and FSB to represent small business and Leonardo and Yeo Valley to provide large business voices).

Alignment with Heart of the South West Joint Committee

Groupings of both the Somerset and the Devon local authorities are developing proposals for the second wave of business retention pilots and are considering alignment with our shared Productivity Strategy. In the limited time available for submissions there is realistically not the scope to establish a plan area approach to the allocation of part of retained sums to delivery of the Productivity Strategy. However once the proposed Joint Committee is established there may be scope to negotiate a common top slicing arrangement thus extending the local productivity and infrastructure fund across the Heart of the South West area.

We are really keen to work with colleagues in Devon in future years. There was insufficient time to co-ordinate a single bid but we want to convey to you our desire to work within the LEP boundaries as we see the need for increased collaboration in order to gain the maximum advantage. This is something into which Somerset is committed to invest resources and funding.

Alignment with National Funds

The local productivity and infrastructure fund provides a mechanism for Somerset partners to leverage funds from the proposed UK Shared Prosperity Fund (Government’s successor to EU Funds) and national programmes linked to the developing UK Industrial Strategy.

Local Authority Schemes

In addition to the local fund, the Somerset authorities have also identified how they will use their own share of the gains from pilot status.

Authority	Scheme
Mendip	<p>Mendip District Council has undergone a strategic programme of transformation and renewal over past years, and is now seeking to drive further economic growth and prosperity across its key market towns including Frome, Glastonbury, Shepton Mallet, Street and the City of Wells. Planned growth across the district is equivalent to 9,400 jobs and 9,635 homes over the period 2006-2029.</p> <p>The local economy has significant self-employment and numbers of micro businesses, as well as key strengths in agri-food/tech and tourism, yet, it also home to the £1.7bn global company, Clarks International, Clarks Village (4.3m visitors in 2016) Mulberry, the iconic Glastonbury Festival and a growing cluster of creative, IT and high-tech companies.</p> <p>Increased economic funding would be targeted towards:</p> <ul style="list-style-type: none"> • Unlocking and investing in key employment, mixed use and/or regeneration sites to accelerate growth and future investment (e.g. Bath & West Food Enterprise Zone, Frome Saxonvale, and Shepton Mallet) • Supporting innovation, incubation and ‘grow-on’ workspace initiatives to drive leadership, growth and business investment • Investing further in digital and mobile infrastructure; developing digital and cyber skills, and supporting businesses exploring investment in automation and robotics to increase productivity.
Sedgemoor	<p>Sedgemoor District Council will continue to encourage growth, which links clearly into the Corporate Strategy as well as the external strategies such as the Somerset Growth Plan and the LEP Productivity Plan. The 100% Business Rates Retention pilot offers opportunities to plan for the delivery of long term economic growth centred on our economic development strategy which seeks to drive up the value and productivity of our economic sectors and diversify into new sectors. In terms of delivering a medium term sustainable budget Sedgemoor is developing a Commercial Investment Strategy which will focus on generating additional income from new initiatives.</p>

Authority	Scheme
Sedgemoor (cont.)	<p>The new nuclear power station project (Hinkley C) has already created opportunities driven through our planning performance agreement and section 106 mitigation packages to transform the educational infrastructure in our locality and to focus on upskilling of individuals and businesses to participate in the supply chain. This aims to build potential for future business and avoid a construction boom and bust. We see opportunities into the future to support the wider regional economy in the Great West as well as in the Heart of the SW LEP area and see Sedgemoor being an important player in the delivery of the Productivity Plan / Industrial Strategy.</p> <p>We are part of the Hinkley Housing Zone along with Taunton Deane and West Somerset Councils but this has capacity pressures. Approved plans exceeding national OAN are in place with high delivery rates. However housing delivery will hit a barrier due to road and schools capacity. Sound infrastructure delivery plans are in place but current funding models often don't enable infrastructure delivery before housing occupation. Low land values cause viability & cash-flow issues. HIF & match funding will accelerate delivery of 17600 homes by forward funding essential highways, transport, schools & flood infrastructure which will otherwise become a break on development enabling recycled funds for further delivery. Delivery mechanisms include direct delivery and a range of tenures e.g. custom-build, self-build and homes for rent.</p> <p>The Business Rates Retention Pilot will generate additional resources for delivering priorities which include;</p> <ul style="list-style-type: none"> • The Parrett Barrier - funding contribution to match CIL receipts and EA FDG to deliver scheme in next 7 years - priority • Public realm and town centre regeneration initiatives such as the Celebration Mile, Bridgwater • Enhanced local accessibility e.g. rail station accessibility and walking and cycling 'gap' schemes to complete networks and routes to reduce base traffic off the network- Bridgwater • Dunball Roundabout improvements • Junction 24 improvements on the M5 to enable new a commercial area at Huntworth • Economic development incentives to accelerate growth and secure inward investment • M5 corridor improvements • Transport schemes, including schemes to East and West of Bridgwater to deliver planned growth on the A38 corridor / J 22 linked to the expansion and development of housing growth. Also our duty to cooperate with N Somerset and the expansion of Bristol airport, and transport investment in Cheddar to support housing

Authority	Scheme
	<p style="text-align: center;">growth and minerals extraction. Review complete Summer 2018</p> <hr/> <p>South Somerset</p> <p>The Council is implementing a significant transformation programme which is improving our services to customers, modernising how we work and providing cost efficiencies to support financial sustainability. We plan to use some of the pooling gain towards the funding of this programme.</p> <p>Yeovil is the principal growth point for South Somerset, serving around 165,000 people and providing a wide range of jobs and services . The council wish to encourage growth and diversification in the economy based upon the current strength in aerospace and advanced manufacturing. The adopted Local Plan and Economic Strategy promise District-wide growth of 11,249 jobs and 15,950 homes over the period 2006 -2028; around 5,513 of those jobs and 7,441 of those homes are to be provided in Yeovil. Projects that we are looking to support are:</p> <ul style="list-style-type: none"> • Yeovil - Access improvements to the town centre to open up a number of brownfield regeneration sites for employment, mixed use and housing development. • Yeovil - Creation of a public service and business hub and associated mixed uses. • A 303 Corridor Wincanton and Ilminster - employment land - acquisition and development.
<p>Taunton Deane & West Somerset</p>	<p>Taunton Deane Borough Council and West Somerset Council have ambitious plans for growth, productivity and prosperity. West Somerset is hosting the construction of the first new nuclear power station in a generation, at Hinkley Point, and has set a priority to maximise the economic legacy from the project, while managing the impacts of the construction on our communities. Taunton has recently been designated as a Garden Town, the first in the South West, in recognition of the Council's commitment to delivering transformational levels of housing and economic growth. The Hinkley Housing Zone covers both authority areas, as well as the neighbouring Sedgemoor district.</p> <p>Whilst both authorities are already investing significant available funding, including New Homes Bonus and use of borrowing powers, there remains a significant funding gap to achieve our growth ambitions and address community concerns.</p> <p>Becoming pilot areas for business rates retention would enable both authorities to accelerate delivery of a range of schemes, creating homes, jobs and prosperity. Examples of schemes that we envisage as benefitting from such funding include:</p>

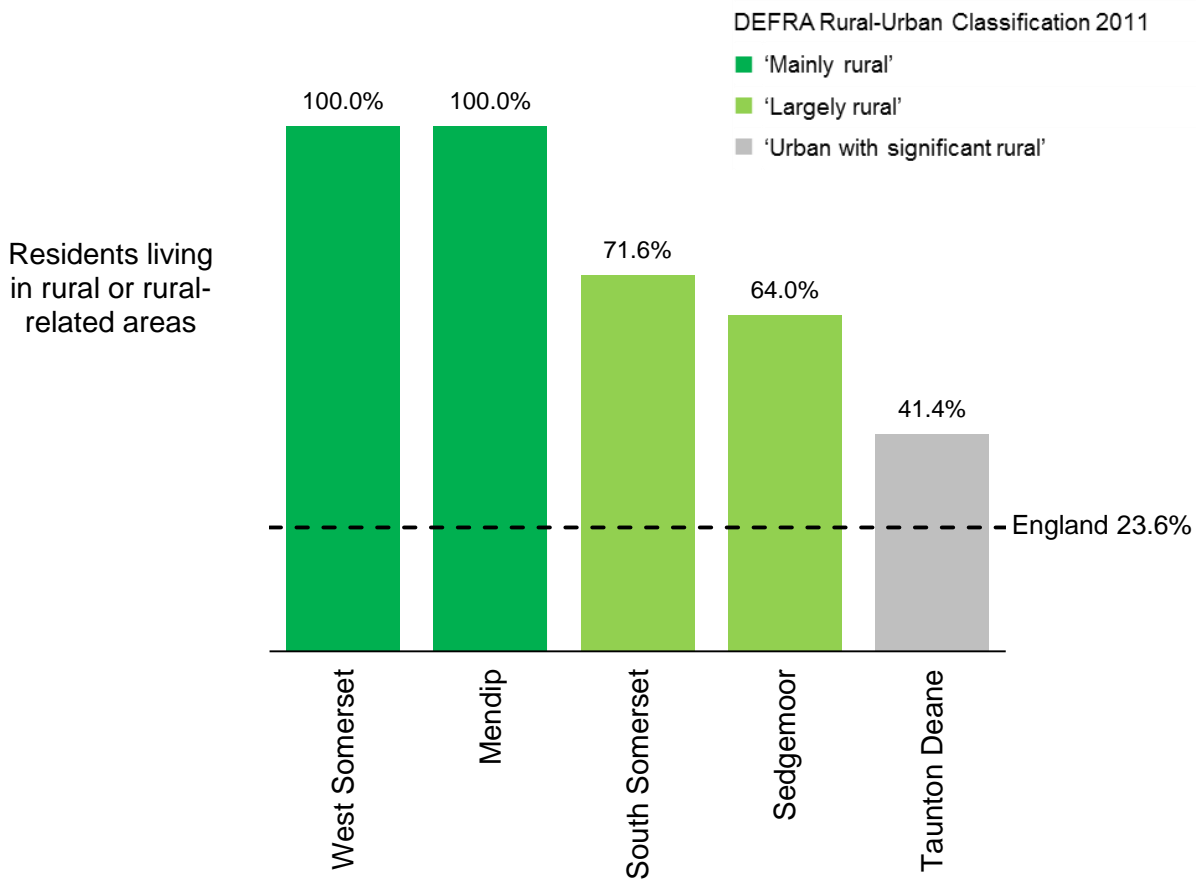
Authority	Scheme
Taunton Deane & West Somerset (cont.)	<ul style="list-style-type: none"> • Essential transport and flood relief infrastructure to unlock key housing and employment sites. • New business incubation and innovation space and support for start-up businesses to locate, collaborate and grow. • Sustainable transport initiatives, supporting growth and introducing smart solutions to problems of congestion, air pollution and related health problems. • Transforming and regenerating our town centres. • Skills development initiatives to boost productivity, address social mobility issues and meet the needs of local businesses.
Somerset County Council	<p>Somerset County Council faces two very specific budget pressures at present in Adult Social Care and in Children’s Social Care. Government funding permissions with regard to the ASC precept and the allocation of the improved Better Care Fund have addressed ASC pressures significantly. However, the improved Better Care Fund reduces in the years ahead and some of our pilot gain would be set aside to mitigate this for 2018/19. A proportion would also be allocated to Children’s Social Care placement budgets as we continue on our journey towards a Good Ofsted rating. There is an ever increasing need to secure additional foster carers and the pilot gain will again help to keep our service costs closer to the placement budget.</p>

Appendix D – Rurality

The proposed pool is highly rural. West Somerset and Mendip are classified as ‘mainly rural’, South Somerset and Sedgemoor as ‘largely rural’, and Taunton Deane as ‘urban with significant rural’. These classifications, produced by Defra, are based on the population living in rural areas plus the rural-related population. The latter includes residents living in hub towns that can be centres of service provision for surrounding rural area (but excludes larger market towns).

The percentage of residents living in rural or rural-related areas is illustrated below. For West Somerset and Mendip, 100% of residents are classified as living in these areas, while for the most ‘urban’ authority, Taunton Deane, the percentage is 41%, which is still significantly higher than the England average.

Figure 2 – Somerset authorities’ Rural–Urban classification



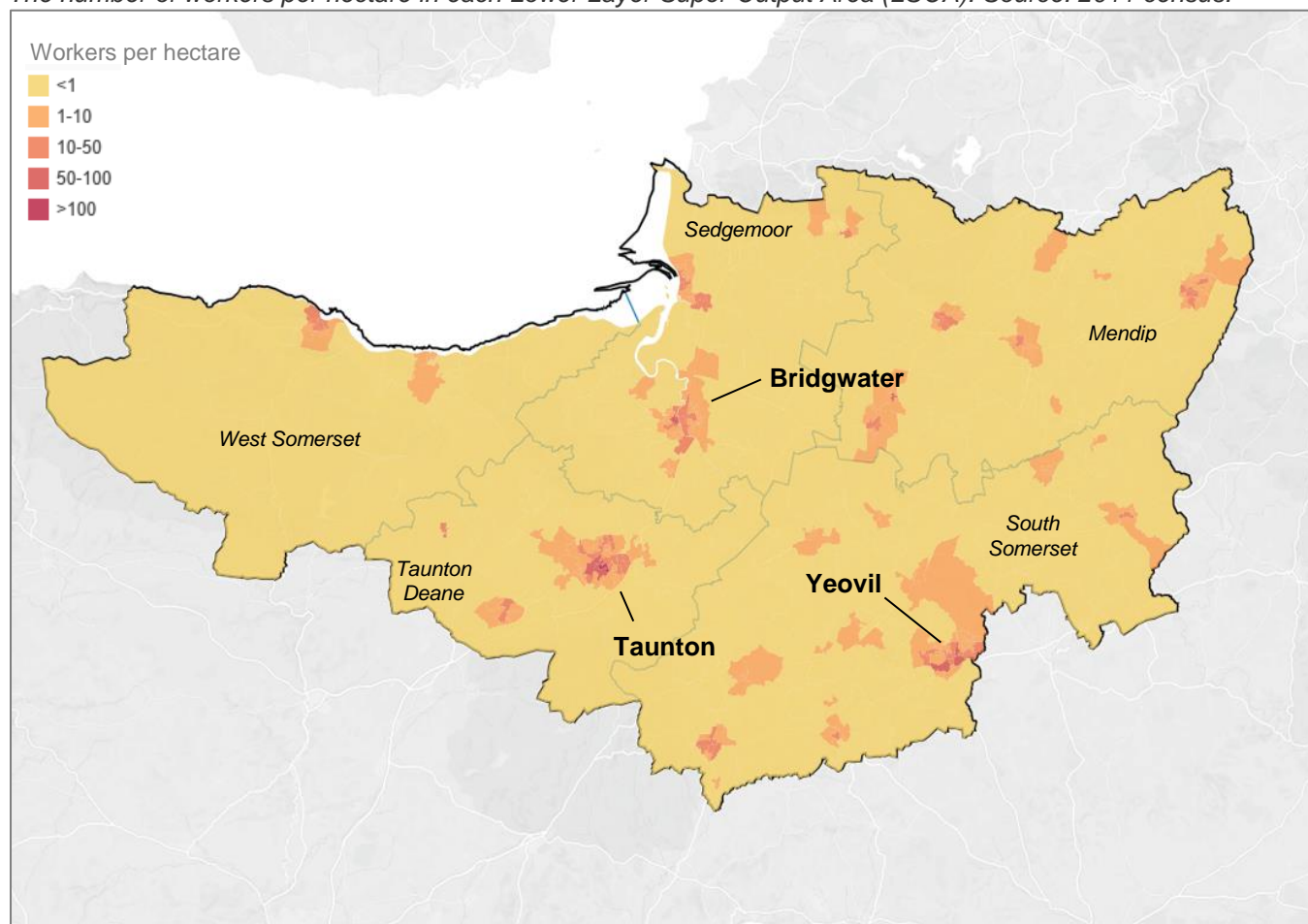
Appendix E – Economic Activity

This appendix provides a brief overview of the economic geography of the proposed pool. Data on businesses' rateable value is not published below the local authority level, so workplace population (from the 2011 census) has been used as a proxy for business activity at a more detailed geographic scale. This is illustrated below.

Based on this proxy measure, Somerset is characterised by relatively sparse clusters of business activity. The areas of most dense employment correspond to the largest population settlements, notably the towns of Taunton, Yeovil and Bridgwater. These three towns are the only built-up areas in the county that have more than 40,000 residents, as of the 2011 census (the remainder have 26,000 or residents or less). Given the size of these built-up areas, pooling could enable investment in economic development projects, at a minimally efficient scale, that was not otherwise available at the district level.

Figure 3 - Map of workplace density

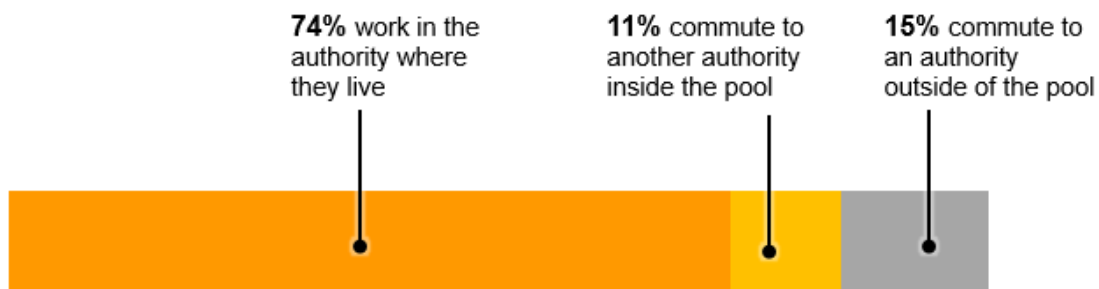
The number of workers per hectare in each Lower Layer Super Output Area (LSOA). Source: 2011 census.



The proposed pool is a largely self-contained labour market, with 85% of employed residents within the county also working within the county – in other words, only 15% of employed residents commuted outside the administrative boundaries of the pool (this analysis only includes residents with a fixed location of work). This is illustrated in the chart below.

Figure 4 – Commuter patterns in the proposed Somerset pool

Excludes residents with 'no fixed location' of work. Source: 2011 census.



Some of the districts are reliant on other pool members as a key source of employment: for example, 18% of Sedgemoor’s employed residents, and 16% of West Somerset’s employed residents, commute to work in other authorities in the proposed pool. The main commuter destination for both these districts is Taunton Deane. In turn, 11% of employed residents in Taunton Deane commute to other pool authorities, the main destinations being Sedgemoor and South Somerset. Mendip’s economic activity is also heavily interdependent with Bristol, Bath and Wiltshire, in addition to the rest of Somerset. This indicates the labour market extends beyond the administrative boundaries of these individual districts, and that there are interdependencies that would incentivise a joined-up approach to economic development. These incentives for coordinated development could be greatly reinforced by pooling.

Appendix F – Business Rates Base Profile

- Somerset is home to three generations of nuclear power stations located in the district of West Somerset: Hinkley Point A (HPA), Hinkley Point B (HPB), and Hinkley Point (HPC). The decommissioning of HPA commenced in 2000. HPB is currently the only operating power station at Hinkley Point. Commissioned in 1976, it has a net electrical output of 0.87GW and is currently operating below maximum capacity. The station was due to be decommissioned in 2016, but its life has been extended until 2023. HPC will be the first new nuclear power station in the UK for a generation, capable of generating 7% of the UK's total energy requirement.
- Sedgemoor is hosting a government supported Enterprise Zone based on Huntspill Energy Park. Expansion, infrastructure and development is required to deliver this site.

Annex A

Somerset Councils Business Rates Pool Governance Agreement

1. Pool Membership

- Somerset County Council
- Sedgemoor District Council
- Mendip District Council
- South Somerset DC
- Taunton Deane BC
- West Somerset Council

2. Introduction

This pooling proposal has been agreed by all pool members and signed by their Section 151 Officers.

The proposal sets out various key principles and addresses the key governance areas to ensure that a robust framework is in place for the effective management of the pool. Governance arrangements will stay in place until the pool is fully dissolved.

Each time a new member joins or an existing member leaves the Pool the governance arrangements will need to be reviewed, renewed and agreed with the Department for Communities and Local Government (DCLG) and its successors.

3. Status of this Agreement

The Pool Members agree that this shall be a binding contractual relationship and mutual commitments between them created by this Agreement shall from the date hereof be construed accordingly.

4. Key principles of the pool

- The aim will be to ensure that no participant receives less funding than if they had not pooled.
- Any dividend remaining or any shortfall will be calculated in accordance with the detailed clauses below.
- Outside of this agreement, individual authorities will retain their decision making powers and co-operate in good faith for the duration of this agreement to endeavour to procure the successful implementation of the Pool objectives.
- The Lead Authority is not left with any unforeseen costs or liabilities. Any such costs or liabilities will fall to individual authorities as set out in this agreement.

5. Definition of Pooled Funds

Pooled funds will include monies involved in the Local Government Business Rates Retention Scheme (BRRS). Subject to the requirements of the 2012

Local Government Finance Act and its related regulations, which must take precedence, authorities involved will pool all the business rates collected by each authority **except** the rates yield or growth from any local Enterprise Zone, New Development Deal Area or from renewable energy schemes or similar exemptions, as set out in current or future legislation, where an individual authority is allowed to benefit directly without deductions for levies or others' shares.

6. Governance Structure

The key element in the governance structure will be the s.151 officers of the authorities that are in the pool. They will form a Governance Board and will be responsible for guiding and managing the operational day-to-day running of the pool. The officers will seek to find unanimous agreement on all issues involving the pool.

The Governance Board will meet quarterly, including an annual review meeting of the Pool arrangements and its performance to determine whether the Pool should be dissolved. For example, one or more members may wish to withdraw and the remaining members may wish to resubmit an amended pooling proposal.

If unanimity cannot be reached after a number of options have been considered, the circumstances and difficulties arising will be reported to and guidance sought from the Chief Executives of the councils that are in the Pool for a formal, binding decision to be agreed.

7. Duration of the pooling agreement

Membership of the Pool is voluntary and members will be able to leave the Pool in accordance with this agreement and the DCLG timescales that will be published from time to time (see clause 13).

8. Lead Authority

The Lead Authority for accounting purposes will be Mendip District Council

Responsibilities for the Lead Authority and individual Pool members are outlined in **Appendix 1**.

9. Management Charge

Pool set-up and administration costs incurred by the Lead Authority have been agreed at £15,000 per annum in the first year and thereafter will be uplifted in line with any Local Government pay award.

10. Pool Dividend

The Pool Dividend is defined as the amount remaining in the Pool after:

- The Management Charge has been deducted
- Any Tariff payment to Government

- Any Top Up payment from Government
- Any Levy payment to Government
- Any Safety Net payment from Government
- Payment to each participant of the amount they would have received should the Pool not have existed, including Tariff, Top Up, Safety Net and Levy payments and relevant s.31 grants
- Any interest payments or penalties to or from the Pool

The Pool will be based upon a “No Worse Off” or shared proceeds of net levy saved position. No Worse Off is determined to be that a member will be no worse off by being a member of the Pool than they would have been if they had not been a member of the Pool. Each member will retain the income they would have received under the BRRS if they were not a member of the Pool, as determined by Local Government Finance Settlement.

50% of rates collected are payable to Central Government (Central Share) and the remaining balance of the business rates will then be paid into the Pool on a net cash-flow basis. The Pool will effectively be responsible for the distribution of Tariffs/Top Ups.

11. Allocating any Pool Dividend

The remaining balance of the Pool consists of the Levy payments that would have been paid to Government less the deduction of the Management Charge and any payments made under the No Worse Off principle.

Any Pool Dividend will be distributed on the following basis:

- 20% to Somerset County Council;
- 56% to the remaining Councils in proportion to their Levy saved;
- 24% to the remaining Councils in proportion to their funding targets.

The Pool will not retain a contingency reserve. Instead participants will maintain their own provision against future Pool Shortfalls.

12. Pool Shortfall

If a Pool Member’s business rate income drops by more than the Government determined Safety Net trigger, then, under the No Worse Off principle, that member will be entitled to receive the equivalent of a Safety Net payment from the Pool calculated according to the methodology set out in clause 10. The Management Charge and Safety Net payments will be made as a first call on the Pool, before the Pool Dividend is allocated.

However, if there is a shortfall on the pool – i.e. there is insufficient funding to allow each authority to receive what it would have received outside the Pool - it shall be met as follows:

Stage 1:

- 20% from Somerset County Council;

- 49% from any of the remaining councils that failed to achieve their rates collection target. This shall be in proportion to the cash amount that it is, or they are, below the target (based on their 40% local share);
- 21% from the remaining councils in proportion to their funding targets.

No council shall receive less than its Safety Net level outside the Pool from this step.

Stage 2

- If any councils do fall below their Safety Net level outside the Pool in stage 1 then a further deduction will be made, to fund the amount(s) that those councils have fallen below, from all councils with income in excess of their Safety Net amount outside of the Pool, pro rata to the amounts that they are above the Safety Net.

Stage 3

- If any councils fall below their Safety Net level outside the Pool at stage 2 then a further deduction shall be made, to fund the amount(s) that those councils have fallen below, from all Pool Members, pro rata to each authority's funding target. This is the only step at which an authority may receive less than its Safety Net level outside the Pool.

If a Pool Shortfall seems likely to continue, consideration will be given to the future of the Pool, including dissolution.

13. Dissolution

The pooling arrangement will remain in place until any single authority or authorities say that they wish to leave the Pool. Pool members should consider the impact on the remaining members when making this decision.

Pool membership will be reviewed on an annual basis to determine whether a significant change in business rates is expected and consequently whether the Pool is still financially viable.

Authorities will be required to notify Pool members of their decision to leave the Pool in accordance with the notice period outlined below.

DCLG will be notified of any decision to dissolve the Pool in accordance with their published process and timetable.

Any subsequent decision to re-form a Pool, for example, if one member wishes to leave and the other authorities wish to continue in a new pool, will be made in a timely manner to ensure that a formal pooling proposal is submitted to the DCLG in line with their process and timetable.

14. Notice Period to Dissolve the Pool

Authorities will be required to advise the Pool of their intention to leave and consequently dissolve the Pool giving a **minimum of one month's notice** in advance of the DCLG deadline. This will allow remaining Pool members to consider whether they wish to submit a new pooling application.

Once the Pool has been finally designated by DCLG, the period of membership will be for a minimum of the forthcoming financial year. Should a member withdraw from the Pool during the settlement consultation period, the Pool will be dissolved in accordance with DCLG rules.

15. Distribution of Pool Assets / Liabilities on Dissolution

Pool members will be jointly and severally liable for the assets and liabilities of the Pool. However this should not override any of the detail included in this agreement.

16. Requests to join the Pool

If a new authority wishes to join the Pool it will be required to provide **three months' notice** prior to the DCLG deadline. This will allow time for existing Pool members to carry out due diligence and consider the relative merits of enlarged membership. Where a new member is admitted, the existing Pool is effectively dissolved and a new Pool formed.

17. Payment schedules and cash-flow

Payment schedules will need to be agreed and payments made on time so that the Pool can meet the payments required by Central Government and to share business rates collected. Payments into the Pool will include various payments and these will all need payment schedules as announced by DCLG or as agreed locally.

Payments to the Lead Authority will be made by direct credit on the same day as the payment date to Central Government (the 'scheduled day').

The Pool shall charge interest at a rate of four percentage points above the prevailing Bank of England Base Rate on all payments from participants that are received after the scheduled day.

Safety Net payments are to be made in-year to provide some immediate protection to the authority involved. The Pool will attempt to replicate the timing and amount of any Safety Net payment that would have been due to its members if there was no Pool.

Levies are not finalised until after the year has ended. Thus any Pool Dividend or Shortfall cannot be finalised until after the year has ended. Forecasts of various elements, such as the likely Levy payments and Pool Dividend, will be needed so that authorities can make their decisions about whether to remain in the Pool.

Costs (or benefits) which may arise from the cash-flow into and out of the pooling fund will be offset against (or added to) the Pool Dividend.

Information, in the form of a monthly spreadsheet from the source business rates systems of the billing authority members of the Pool, will be provided to the Lead Authority who will provide at least quarterly monitoring reports to all Pool members of the resulting position.

18. Accounting adjustments (Bad Debts and Appeals provision)

The Forecast and Actual Retained Amounts are the net amounts receivable by the authority from ratepayers after taking account of transitional adjustments, empty property, mandatory and discretionary reliefs and adjustments for provisions for bad and doubtful debts and for losses on appeals.

The provision for losses on appeal will be calculated by individual authorities using Valuation Office data and statistical information on a consistent basis to be agreed by designated officers from all billing authorities.

The provision for bad and doubtful debts will be calculated by each billing authority in accordance with proper practices and will be subject to external audit. If the auditor does not certify the provision on the grounds that the authority has not acted diligently, any such amounts will be funded in full by the respective authority and an adjustment will be made to the Pool Dividend or Shortfall calculations to reflect this.

19. Treasury

The treasury function shall be provided by the Lead Authority. The Treasury Management Strategy of the Lead Authority (which will be at a minimum in accordance with the CIPFA Code of Practice) shall be followed in the operation of the Pool and the management of surplus balances. The funds shall be held in separately named account(s) from the remainder of the Lead Authority's business. All interest receivable is credited to the Pool at the actual rate achieved by the Treasury Management Team of the Lead Authority on an annual basis.

The Lead Authority will not be solely liable for any loss arising from invested sums provided it has operated within its Treasury Management policies. Any such loss will be borne by the Pool Dividend first, then in line with the Board's agreed policy for Pool Shortfall across the individual authorities.

APPENDIX 1

Roles and Responsibilities

The **Lead Authority** will be responsible for the following:

- All finances in relation to the Pool including payments to and from Central Government, the other members of the Pool and Preceptors.
- Calculating the funding position if all councils had not been part of the pooling arrangement and any Pool Dividend or Shortfall.
- Agreeing the various schedules of payment with other Pool members.
- All communications with Central Government, its agencies or other relevant third parties and completing all formal Pool returns to Central Government and DCLG on behalf of the Board including year-end reconciliations.
- All information and external reporting requirements for the Pool, details of which will be shared with all members of the Pool.
- The collation and submission of information required for planning and monitoring purposes by the governance structure, the DCLG or any other party.
- All audit requirements in relation to the Pool.
- Year-end positions for the Statements of Accounts for each member authority.
- The administration of the dissolution of the Pool.

To assist the Lead Authority in fulfilling its responsibilities **Pool members** (including the Lead Authority as appropriate) will be responsible for:

- The collection of relevant business rates to transfer to the Pool run by the Lead Authority.
- The implementation of their own Collection Funds.
- The submission of NNDR forms to DCLG.
- Providing accurate and timely information on the end of year financial performance of the business rates Collection Fund to enable the Lead Authority to calculate the end of year accounting entries needed.
- The provision of such information as the Board agree is reasonable and necessary to monitor and forecast the Pool's resources within the timescales agreed.
- Informing the Lead Authority, as soon as is practicable, of any intelligence that may impact on the resources of the Pool either in the current year or in future years.

APPENDIX 2

Glossary of Terms

“**Agreement**” means this Agreement comprising the terms and conditions together with its Appendices.

“**The Board**” means the Business Rates Pool Board whose functions are more particularly set out in section 6.

“**BRRS**” means the Business Rates Retention Scheme introduced by the Department for Communities and Local Government in April 2013.

“**Lead Authority**” means the authority taking on the responsibilities in Appendix 1.

“**Levy**” means a payment due to central government related to BRRS income above Baseline Funding levels, calculated using a nationally set formula.

“**Management Charge**” means the charge payable from the Pool to the Lead Authority in respect of the costs incurred by the Lead Authority in the performance of its obligations as Lead Authority, as more particularly described at section 8 and Appendix 1.

“**Pool**” means the Business Rates Pool containing the business rates collected from the Pool Members. A voluntary arrangement amongst a group of local authorities to pool the business rates generated locally in accordance with the BRRS pooling prospectus published by DCLG in July 2014.

“**Pool Dividend**” means the amount of Levy retained locally. This is calculated as the sum of levies to be paid by individual Pool members if the Pool did not exist, less any Safety Net funding that would have been due to individual Pool members if the Pool did not exist, less the administrative costs of the Pool.

“**Pool Shortfall**” means the Pool BRRS income is less than the sum of what Pool Members’ BRRS income would have been in the absence of a Pool because the payment of compensation under the no worse off principle exceeds the Levy gains made by other Pool Members.

“**Pool Members**” means Mendip District Council, Sedgemoor District Council, South Somerset District Council, Taunton Deane Borough Council, West Somerset Council and Somerset County Council.

“**Safety Net**” means a payment received by an authority from Central Government under the BRRS if BRRS income falls by more than a specified percentage below the Baseline Funding Level. It is calculated using a national formula.

Annex B

Somerset Councils Business Rates Pool Governance Agreement, acting as a Business Rates Pilot

1. Pool Membership

- Somerset County Council
- Sedgemoor District Council
- Mendip District Council
- South Somerset DC
- Taunton Deane BC
- West Somerset Council

2. Introduction

This pooling proposal has been agreed by all pool members and signed by their Section 151 Officers.

The proposal sets out various key principles and addresses the key governance areas to ensure that a robust framework is in place for the effective management of the pool. Governance arrangements will stay in place until the pool is fully dissolved.

Each time a new member joins or an existing member leaves the Pool the governance arrangements will need to be reviewed, renewed and agreed with the Department for Communities and Local Government (DCLG) and its successors.

3. Status of this Agreement

The Pool Members agree that this shall be a binding contractual relationship and mutual commitments between them created by this Agreement shall from the date hereof be construed accordingly.

4. Key principles of the pool

- The aim will be to ensure that no participant receives less funding than if they had not pooled.
- Any dividend remaining or any shortfall will be calculated in accordance with the detailed clauses below.
- Outside of this agreement, individual authorities will retain their decision making powers and co-operate in good faith for the duration of this agreement to endeavour to procure the successful implementation of the Pool objectives.
- The Lead Authority is not left with any unforeseen costs or liabilities. Any such costs or liabilities will fall to individual authorities as set out in this agreement.

5. Definition of Pooled Funds

Pooled funds will include monies involved in the Local Government Business Rates Retention Scheme (BRRS). Subject to the requirements of the 2012 Local Government Finance Act and its related regulations, which must take precedence, authorities involved will pool all the business rates collected by each authority **except** the rates yield or growth from any local Enterprise Zone, New Development Deal Area or from renewable energy schemes or similar exemptions, as set out in current or future legislation, where an individual authority is allowed to benefit directly without deductions for levies or others' shares.

6. Governance Structure

The key element in the governance structure will be the s.151 officers of the authorities that are in the pool. They will form a Governance Board and will be responsible for guiding and managing the operational day-to-day running of the pool. The officers will seek to find unanimous agreement on all issues involving the pool.

The Governance Board will meet quarterly, including an annual review meeting of the Pool arrangements and its performance to determine whether the Pool should be dissolved. For example, one or more members may wish to withdraw and the remaining members may wish to resubmit an amended pooling proposal.

If unanimity cannot be reached after a number of options have been considered, the circumstances and difficulties arising will be reported to and guidance sought from the Chief Executives of the councils that are in the Pool for a formal, binding decision to be agreed.

7. Duration of the pooling agreement

Membership of the Pool is voluntary and members will be able to leave the Pool in accordance with this agreement and the DCLG timescales that will be published from time to time (see clause 13).

8. Lead Authority

The Lead Authority for accounting purposes will be Mendip District Council.

Responsibilities for the Lead Authority and individual Pool members are outlined in **Appendix 1**.

9. Management Charge

Pool set-up and administration costs incurred by the Lead Authority have been agreed at £15,000 per annum in the first year and thereafter will be uplifted in line with any Local Government pay award.

10. Pool Dividend

The Pool Dividend is defined as the amount remaining in the Pool after:

- The Management Charge has been deducted
- Any Tariff payment to Government
- Any Top Up payment from Government
- Any Levy payment to Government
- Any Safety Net payment from Government
- Payment to each participant of the amount they would have received should the Pool not have existed, including Tariff, Top Up, Safety Net and Levy payments and relevant s.31 grants
- Any interest payments or penalties to or from the Pool

11. Allocating Resources

Providing there pool has a pool dividend, growth should be apportioned as follows:

Districts retaining 50% of variance to Baseline

The County Council retaining 49% of each of the districts variance to Baseline

However, providing the pool dividend is sufficient, gains from acting as a pool (under 100% BRR) will be scaled back in order to ensure that: no member will be no worse off by being a member of the Pool than they would have been if they had not been a member of the Pool.

12. Dissolution

The pooling arrangement will remain in place until any single authority or authorities say that they wish to leave the Pool. Pool members should consider the impact on the remaining members when making this decision.

Pool membership will be reviewed on an annual basis to determine whether a significant change in business rates is expected and consequently whether the Pool is still financially viable.

Authorities will be required to notify Pool members of their decision to leave the Pool in accordance with the notice period outlined below.

DCLG will be notified of any decision to dissolve the Pool in accordance with their published process and timetable.

Any subsequent decision to re-form a Pool, for example, if one member wishes to leave and the other authorities wish to continue in a new pool, will be made in a timely manner to ensure that a formal pooling proposal is submitted to the DCLG in line with their process and timetable.

13. Notice Period to Dissolve the Pool

Authorities will be required to advise the Pool of their intention to leave and consequently dissolve the Pool giving a **minimum of one month's notice** in advance of the DCLG deadline. This will allow remaining Pool members to consider whether they wish to submit a new pooling application.

Once the Pool has been finally designated by DCLG, the period of membership will be for a minimum of the forthcoming financial year. Should a member withdraw from the Pool during the settlement consultation period, the Pool will be dissolved in accordance with DCLG rules.

14. Distribution of Pool Assets / Liabilities on Dissolution

Pool members will be jointly and severally liable for the assets and liabilities of the Pool. However this should not override any of the detail included in this agreement.

15. Requests to join the Pool

If a new authority wishes to join the Pool it will be required to provide **three months' notice** prior to the DCLG deadline. This will allow time for existing Pool members to carry out due diligence and consider the relative merits of enlarged membership. Where a new member is admitted, the existing Pool is effectively dissolved and a new Pool formed.

16. Payment schedules and cash-flow

Payment schedules will need to be agreed and payments made on time so that the Pool can meet the payments required by Central Government and to share business rates collected. Payments into the Pool will include various payments and these will all need payment schedules as announced by DCLG or as agreed locally.

Payments to the Lead Authority will be made by direct credit on the same day as the payment date to Central Government (the 'scheduled day').

The Pool shall charge interest at a rate of four percentage points above the prevailing Bank of England Base Rate on all payments from participants that are received after the scheduled day.

Safety Net payments are to be made in-year to provide some immediate protection to the authority involved. The Pool will attempt to replicate the timing and amount of any Safety Net payment that would have been due to its members if there was no Pool.

Levies are not finalised until after the year has ended. Thus any Pool Dividend or Shortfall cannot be finalised until after the year has ended. Forecasts of various elements, such as the likely Levy payments and Pool Dividend, will be needed so that authorities can make their decisions about whether to remain in the Pool.

Costs (or benefits) which may arise from the cash-flow into and out of the pooling fund will be offset against (or added to) the Pool Dividend.

Information, in the form of a monthly spreadsheet from the source business rates systems of the billing authority members of the Pool, will be provided to the Lead Authority who will provide at least quarterly monitoring reports to all Pool members of the resulting position.

17. Accounting adjustments (Bad Debts and Appeals provision)

The Forecast and Actual Retained Amounts are the net amounts receivable by the authority from ratepayers after taking account of transitional adjustments, empty property, mandatory and discretionary reliefs and adjustments for provisions for bad and doubtful debts and for losses on appeals.

The provision for losses on appeal will be calculated by individual authorities using Valuation Office data and statistical information on a consistent basis to be agreed by designated officers from all billing authorities.

The provision for bad and doubtful debts will be calculated by each billing authority in accordance with proper practices and will be subject to external audit. If the auditor does not certify the provision on the grounds that the authority has not acted diligently, any such amounts will be funded in full by the respective authority and an adjustment will be made to the Pool Dividend or Shortfall calculations to reflect this.

18. Treasury

The treasury function shall be provided by the Lead Authority. The Treasury Management Strategy of the Lead Authority (which will be at a minimum in accordance with the CIPFA Code of Practice) shall be followed in the operation of the Pool and the management of surplus balances. The funds shall be held in separately named account(s) from the remainder of the Lead Authority's business. All interest receivable is credited to the Pool at the actual rate achieved by the Treasury Management Team of the Lead Authority on an annual basis.

The Lead Authority will not be solely liable for any loss arising from invested sums provided it has operated within its Treasury Management policies. Any such loss will be borne by the Pool Dividend first, then in line with the Board's agreed policy for Pool Shortfall across the individual authorities.

APPENDIX 1

Roles and Responsibilities

The **Lead Authority** will be responsible for the following:

- All finances in relation to the Pool including payments to and from Central Government, the other members of the Pool and Preceptors.
- Calculating the funding position if all councils had not been part of the pooling arrangement and any Pool Dividend or Shortfall.
- Agreeing the various schedules of payment with other Pool members.
- All communications with Central Government, its agencies or other relevant third parties and completing all formal Pool returns to Central Government and DCLG on behalf of the Board including year-end reconciliations.
- All information and external reporting requirements for the Pool, details of which will be shared with all members of the Pool.
- The collation and submission of information required for planning and monitoring purposes by the governance structure, the DCLG or any other party.
- All audit requirements in relation to the Pool.
- Year-end positions for the Statements of Accounts for each member authority.
- The administration of the dissolution of the Pool.

To assist the Lead Authority in fulfilling its responsibilities **Pool members** (including the Lead Authority as appropriate) will be responsible for:

- The collection of relevant business rates to transfer to the Pool run by the Lead Authority.
- The implementation of their own Collection Funds.
- The submission of NNDR forms to DCLG.
- Providing accurate and timely information on the end of year financial performance of the business rates Collection Fund to enable the Lead Authority to calculate the end of year accounting entries needed.
- The provision of such information as the Board agree is reasonable and necessary to monitor and forecast the Pool's resources within the timescales agreed.
- Informing the Lead Authority, as soon as is practicable, of any intelligence that may impact on the resources of the Pool either in the current year or in future years.

APPENDIX 2

Glossary of Terms

“**Agreement**” means this Agreement comprising the terms and conditions together with its Appendices.

“**The Board**” means the Business Rates Pool Board whose functions are more particularly set out in section 6.

“**BRRS**” means the Business Rates Retention Scheme introduced by the Department for Communities and Local Government in April 2013.

“**Lead Authority**” means the authority taking on the responsibilities in Appendix 1.

“**Levy**” means a payment due to central government related to BRRS income above Baseline Funding levels, calculated using a nationally set formula.

“**Management Charge**” means the charge payable from the Pool to the Lead Authority in respect of the costs incurred by the Lead Authority in the performance of its obligations as Lead Authority, as more particularly described at section 8 and Appendix 1.

“**Pool**” means the Business Rates Pool containing the business rates collected from the Pool Members. A voluntary arrangement amongst a group of local authorities to pool the business rates generated locally in accordance with the BRRS pooling prospectus published by DCLG in July 2014.

“**Pool Dividend**” means the amount of Levy retained locally. This is calculated as the sum of levies to be paid by individual Pool members if the Pool did not exist, less any Safety Net funding that would have been due to individual Pool members if the Pool did not exist, less the administrative costs of the Pool.

“**Pool Members**” means Mendip District Council, Sedgemoor District Council, South Somerset District Council, Taunton Deane Borough Council, West Somerset Council and Somerset County Council.

“**Safety Net**” means a payment received by an authority from Central Government under the BRRS if BRRS income falls by more than a specified percentage below the Baseline Funding Level. It is calculated using a national formula.

Agenda Item 8

Treasury Management Strategy Statement and Investment Strategy 2017/18 – Mid-year review

Director *Ian Clarke, Support Services*
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Purpose of the Report

1. This report has been prepared for Council to approve the mid-year Treasury Management Strategy Statement and Investment Strategy for 2017/18. The revised strategy has already been approved by the Audit Committee on 26th October 2017.

Recommendation(s)

2. The Audit Committee recommends that Council approve the revised Treasury Management Strategy Statement and Investment Strategy for 2017/18 (Strategy attached with the amendments highlighted).

Introduction

3. In March 2011 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 Council to approve an annual Treasury Management Strategy and report treasury performance mid-year and at the semi-annual and annual reports.
4. The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved at a meeting of the full Council on 23 February 2017. The Council 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 treasury management strategy.

Background

5. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.
6. 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."
7. 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 S151 Officer who will act in accordance with the organisation's policy statement and Treasury Management Practices (TMPs), and CIPFA's standard of Professional Practice on Treasury Management.

8. The 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. Specific risks are identified in the Council's approved Treasury Management Practices. The risks include:
 - Liquidity Risk (Adequate cash resources)
 - Market or Interest Rate Risk (Fluctuations in the value of investments and borrowing).
 - Inflation Risks (Exposure to inflation)
 - Credit and Counterparty Risk (Security of Investments)
 - Refinancing Risks (Impact of debt maturing in future years).
 - Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).
9. The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
10. When the strategy for 2017/18 was written it took into account the Council's current treasury position and drew upon the forecasts for interest rates provided by the Council's treasury advisers, leading to the proposed Prudential Indicators included. This has been amended with the most recent forecast provided by the Council's treasury advisers.
11. The Strategy is attached at Appendix 1 and is split into the following main areas:
 - Background
 - Credit Outlook and Interest Rate Forecast
 - Balance Sheet and Treasury Position
 - Borrowing Requirement and Strategy
 - Investment Strategy
 - Policy on use of financial Derivatives
 - Balanced Budget Requirement
 - 2017/18 MRP Statement
 - Monitoring and Reporting on Treasury Management
 - Other Items

Regulatory Updates

12. **MiFID II:** Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.
13. The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the

Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

14. The Authority meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status.
15. **CIPFA Consultation on Prudential and Treasury Management Codes:** In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.
16. The proposed changes to the Prudential Code include the requirement to produce a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (such as the Housing Revenue Account (HRA) for Council's that retain a council housing landlord function) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.
17. Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties to be incorporated within the definition of "investments" as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and as such addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.
18. CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

Financial Implications

19. There are no additional financial implications in reviewing the attached treasury management strategy.

Background Papers

CIPFA Treasury Management Code of Practice
Treasury Management Practices

South Somerset District Council Treasury Management Strategy Statement and Investment Strategy 2017/18

Contents

- 1. Background**
- 2. Economic Background**
- 3. Credit Outlook and Interest Rate Forecast**
- 4. Balance Sheet and Treasury Position**
- 5. Borrowing Requirement and Strategy**
- 6. Investment Strategy**
- 7. Policy on use of financial Derivatives**
- 8. Balanced Budget Requirement**
- 9. 2017/18 MRP Statement**
- 10. Monitoring and Reporting on Treasury Management**
- 11. 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 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.
- 1.7 Revised Strategy: In accordance with the CLG Guidance, the authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.
- 1.8 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.
- 1.9 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.
- 1.10 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 **S151 Officer** who will act in accordance with the organisation's policy statement and TMPs and CIPFA's standard of Professional Practice on Treasury Management.

- 1.11 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 1.12 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.
- 1.13 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.
- 1.14 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.
- 1.15 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.
- 1.16 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 Economic Background

2.1 The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

2.2 The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank

Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

2.3 Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly \$1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

2.4 Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

2.5 In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

2.6 Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

2.7 The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

3 Credit Outlook and interest rate forecast

3.1 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e after inflation) struggles in the face of higher inflation.

3.2 The Bank of England's Monetary Policy Committee has changed its rhetoric, implying a rise in Bank Rate in "the coming months". Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

3.3 This decision is still very data dependant and Arlingclose is, for now, maintaining its central case for Bank Rate at 0.25% whilst introducing near-term upside risks to the forecast as shown below. Arlingclose's central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Official Bank Rate													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

4 Balance Sheet and Treasury Position

4.1 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:

	31/03/16 Actual £'000	31/03/17 Actual £'000	31/03/18 Estimate £'000	31/03/19 Estimate £'000	31/03/20 Estimate £'000
CFR	9,342	9,338	24,175	44,143	64,134
Usable Capital Receipts	(34,989)	(29,857)	(19,081)	(17,295)	(17,607)
Balances & Reserves	(21,330)	(19,855)	(17,010)	(16,082)	(15,791)
Net Balance Sheet Position **	(46,977)	(40,374)	(11,916)	10,766	30,736

**excluding working capital.

Note: The change in usable capital receipts each year is due to spend/income committed against the capital programme as at Dec 2016.

4.2 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.

4.3 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.

4.4 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.

4.5 The Prudential Code also promotes transparency in decision making by using information contained within the published Statements of Accounts of the local authority and by having definitions for prudential indicators that are consistent with the definitions used within the statements of Accounts. The Prudential indicators which are designed to support and record local decision making in a manner that is publicly accountable are attached at *Appendix B*.

4.6 The Authority is currently debt free. However, as part of the Council's transformation programme and commercial strategy, the Council has agreed to plans to acquire investment properties in order to generate income up to the Value of £75m by 2020/21. The Council has agreed in principle to finance such capital investments through borrowing. 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 2017/18 is nil and for interest receipts is £477,820.

5 Borrowing Requirement and Strategy

- 5.1 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.
- 5.2 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.
- 5.3 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 modestly. 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 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 5.4 Alternatively, the Authority may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. 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) and any successor 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 the Peninsula Pension Fund)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- 5.5 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
- 5.6 The Council will undertake a financial options appraisal before any borrowing is made. As part of the Council's transformation programme and commercial strategy, the Council has agreed to plans to acquire investment properties in order to generate income that can be used to address the budget challenge and protect ongoing service delivery. In approving these, the Council has agreed in principle to finance such capital investments through borrowing. The updates to the TMSS reflects this approach.

5.7 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.

6 **Investment Strategy**

6.1 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 £48.9 million and £73.0 million, and similar levels are expected to be maintained in the forthcoming year.

6.2 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 of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested although this won't be the only consideration.

6.3 Negative interest rates: If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4 Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2017/18.

6.5 The Authority may invest its surplus funds with any of the counterparty types 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	£3 m 5 years	£6 m 20 years	£6 m 50 years	£3 m 20 years	£3 m 20 years
AA+	£3 m 5 years	£6 m 10 years	£6 m 25 years	£3 m 10 years	£3 m 10 years
AA	£3 m 4 years	£6 m 5 years	£6 m 15 years	£3 m 5 years	£3 m 10 years
AA-	£3 m 3 years	£6 m 4 years	£6 m 10 years	£3 m 4 years	£3 m 10 years
A+	£3 m 2 years	£6 m 3 years	£3 m 5 years	£3 m 3 years	£3 m 5 years
A	£3 m 13 months	£6 m 2 years	£3 m 5 years	£3m 2 years	£3 m 5 years
A-	£3 m 6 months	£6 m 13 months	£3 m 5 years	£3 m 13 months	£3 m 5 years
BBB+	£1.5 m 100 days	£3 m 6 months	£1.5 m 2 years	£1.5 m 6 months	£1.5 m 2 years

None	n/a	n/a	£6 m 25 years*	n/a	£3 m 5 years
Pooled funds	£6m (nominal value) per fund				

*includes unrated UK Local Authorities

- 6.6 **Credit Rating:** Investment limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- 6.7 **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.
- 6.8 **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 higher 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.
- 6.9 **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.
- 6.10 **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.
- 6.11 **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 the likelihood of receiving government support if needed.
- 6.12 **Pooled Funds:** Shares in diversified investment vehicles consisting of 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. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility 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.
- 6.13 **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.

6.14 **Risk Assessment and Credit Ratings:** 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,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.15 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.

6.16 **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.

6.17 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 or invested in government treasury bills 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.

6.18 **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".

6.19 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.

6.20 **Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. If the Authority intends to make any investments that are defined as capital expenditure by legislation, such as company shares, a supporting report from Arlingclose will be required. 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)	£40m
Total investments without credit ratings or rated below A- (does not include other UK Local Authorities)	£5m *
Total investments (except pooled funds) in foreign countries rated below AA+	£4m
Total non-specified investments	£49m

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

6.21 **Investment Limits:** The Authority’s revenue reserves available to cover financial risks including investment losses are forecast to be £3 million on 31st March 2017. The maximum that will be lent to any one organisation (other than the UK Government) will be £6 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 fund managers, investments in brokers’ nominee accounts (e.g. King & Shaxson), foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£6m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£6m 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

6.22 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 set out within the prudential indicators (Appendix B).

6.23 **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 prudent basis 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.

7 Policy on use of financial Derivatives

- 7.1 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).
- 7.2 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 and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.3 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.
- 7.4 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

8 Balanced Budget Requirement

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

9 2017/18 MRP Statement

Background:

- 9.1 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.
- 9.2 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.
- 9.3 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:

9.4 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:

9.5 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:

9.6 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 Instalments: 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.

9.7 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.

9.8 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.

9.9 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.

9.10 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:

9.11 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 2017/18:

9.12 It is proposed that for 2017/18 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.

9.13 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.

10 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 **S151 Officer** 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 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.

11 Other Items

Training

11.1 CIPFA's revised Code requires 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.

11.2 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

11.3 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.

11.4 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

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

Investment of money borrowed in Advance of Need

11.6 The Authority may, from time to time borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

11.7 The total amount borrowed will not exceed the authorised borrowing limit of £12 million. The maximum period between borrowing and expenditure is expected to be 2 years, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

11.8 The budget for investment income in 2017/18 is £477,820. The budget for debt interest paid in 2017/18 is zero as we currently have no debt. 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

	31/03/16 Actual £'000	31/03/17 Actual £'000	31/3/18 Estimate £'000	31/3/19 Estimate £'000
External Borrowing:				
<i>Long-term liabilities</i>				
• <i>Finance Leases</i>	230	227	15,062	35,030
Total External Debt	230	227	15,062	35,030
Investments:				
• Short term Deposits	20,000	20,000	13,250	13,040
• Monies on call and Money Market Funds	1,490	1,000	841	837
• Long term Deposits	0	3,000	2,000	2,000
• Bonds/CDs	21,831	22,175	15,000	12,500
• Property Fund & Other pooled funds	5,000	6,000	5,000	5,000
Total Investments	48,321	52,175	36,091	33,377
(Net Borrowing Position)/ Net Investment position	48,091	51,948	21,029	(1,653)

PRUDENTIAL INDICATORS 2017/18 TO 2019/20**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 2016/17 and the estimates of capital expenditure to be incurred for 2017/18 and future years are:

	2016/17 Approved £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Approved capital schemes	7,382	19,589	20,586	19,688
Reserve schemes	2,298	4,023	1,200	0
Total Expenditure	9,680	23,612	21,786	19,688

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 2017/18 and future years, and the approved figures for 2016/17 are:

Portfolio	2016/17 Approved £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Financing Costs*	(489)	(52)	1,146	2,041
Net Revenue Stream	16,904	17,793	17,534	16,579
%*	(2.9)	(0.3)	6.8	12.4

*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.

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:

	2016/17 Approved £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	Figures in brackets denote financing through receipts or reserves. Prudenti al
Opening CFR	9,343	9,249	24,025	43,293	
Capital Expenditure	8,067	19,903	20,898	20,000	
Capital Receipts*	(7,382)	(4,589)	(586)	312	
Grants/Contributions*	(685)	(314)	(312)	(312)	
MRP	(87)	(224)	(732)	(1,109)	
Additional Leases taken out in year	0	0	0	0	
Closing CFR	9,256	24,025	43,293	62,184	

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.

	2016/17 Approved £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	0	15,000	35,000	55,000
Finance leases	99	136	62	30
Total Debt	99	15,136	35,062	55,030

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.

	2016/17 % Limit	2017/18 % Limit	2018/19 % Limit	2019/20 % Limit
Fixed	80	80	80	80
Variable	100	100	100	100

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

	2016/17 % Limit	2017/18 % Limit	2018/19 % Limit	2019/20 % 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.

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 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 31/03/2016	£'000
Borrowing	0
Other Long-term Liabilities	230
Total	230

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 fund the agreed plans to acquire investment properties.

	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	11,000	26,000	46,000	66,000
Other Long-term Liabilities	1,000	1,000	1,000	1,000
Total	12,000	27,000	47,000	67,000

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. This indicator more than covers the capital financing requirement.

The S151 Officer 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.

	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	9,200	24,200	44,200	64,200
Other Long-term Liabilities	800	800	800	800
Total	10,000	25,000	45,000	65,000

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	2016/17 % Estimate	2017/18 % 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	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase in Band D Council Tax	0.15	0.17	0.01

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.

Arlingclose's Economic and Interest Rate Forecast

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside rtsk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.44
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside rtsk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
3-month LIBID rate														
Upside rtsk	0.30	0.30	0.30	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.53
Arlingclose Central Case	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside rtsk	-0.10	-0.10	-0.15	-0.10	-0.10	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.17
1-yr LIBID rate														
Upside rtsk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.65	0.65	0.32
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.60	0.60	0.62
Downside rtsk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.10	-0.10	-0.25
5-yr gilt yield														
Upside rtsk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Arlingclose Central Case	0.55	0.55	0.60	0.60	0.60	0.65	0.70	0.75	0.80	0.85	0.90	0.95	0.95	0.73
Downside rtsk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
10-yr gilt yield														
Upside rtsk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Arlingclose Central Case	1.05	1.02	1.05	1.05	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40	1.40	1.18
Downside rtsk	-0.20	-0.35	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15	-0.15	-0.24
20-yr gilt yield														
Upside rtsk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.70	0.70	0.57
Arlingclose Central Case	1.60	1.60	1.60	1.60	1.60	1.65	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.73
Downside rtsk	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.34
50-yr gilt yield														
Upside rtsk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.85	0.85	0.60
Arlingclose Central Case	1.50	1.50	1.50	1.50	1.50	1.55	1.60	1.65	1.70	1.75	1.80	1.85	1.85	1.63
Downside rtsk	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.50	-0.50	-0.37

Underlying assumptions:

- The Monetary Policy Committee once again voted 7-2 in favour of maintaining bank rate at 0.25%. However, the Committee meeting minutes for September suggested that the upside risks to Bank Rate had increased, noting that the majority of MPC members judged that the withdrawal of monetary stimulus was likely to be appropriate to return inflation to target.
- This potential rise in Bank Rate is dependant on policymakers seeing continued erosion of economic capacity and a gradual rise in underlying inflationary pressure.
- All members agreed that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. UK Q2 2017 GDP growth was 0.3%, after a 0.2% expansion in Q1. The initial expenditure breakdown showed weakness in consumption, business investment and net trade. Both consumer and business confidence remain subdued.
- Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low, with little scope for further reduction to smooth consumption. When inflation eventually eases, savings are likely to be replenished, further diverting money away from consumption.

- Some data has held up better than expected, with unemployment falling to an all-time low and house prices remaining relatively resilient.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continue to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risk remain elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC have changed their rhetoric, implying a rise in Bank Rate in “the coming months”. We are bit convinced the UK’s economic outlook justifies such a move at this stage, but the Bank’s interpretation of the data seems to have shifted.
- This decision is still very data dependant and we are for now maintaining our central case for Bank Rate at 0.25% whilst introducing near-term upside risks to our forecasts.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

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

Increase in Councillors and change of name of Barwick Parish Council – Community Governance Review (CGR)

Executive Portfolio Holder: Val Keitch, Area West Chair – Democratic Services
Director: Ian Clarke, Support Services
Lead Officer: Angela Cox, Democratic Services Manager
Contact Details: Angela.cox@southsomerset.gov.uk or (01935) 462148

Purpose of the Report

1. To report the receipt of two requests from Barwick Parish Council (under the provisions of Part 4 of the Local Government and Public Involvement in Health Act 2007):-
 - a. to increase the size of the Parish Council from 10 to 12 Councillors
 - b. to change the name of Barwick Parish Council to Barwick and Stoford Parish Council

Public Interest

2. A Community Governance Review is a review of the whole or part of a district to consider one or more of the following:
 - creating, merging, altering or abolishing parishes;
 - the naming of parishes and the style (i.e. whether to call it a town council or village council etc) of new parishes;
 - the electoral arrangements for parishes – the ordinary year of election, the size of the council, the number of councillors to be elected and parish warding;
 - grouping parishes under a common parish council, or de-grouping parishes.
3. The Local Government and Public Involvement in Health Act, 2007, sets down the principal legal framework within which councils must undertake these reviews.
4. A valid request has been received from Barwick Parish Council requesting that the District Council conduct a consultation (Community Governance Review) of all the electors and local interested groups to ask if they would support the increase in the number of Parish Councillors from 10 to 12 and to change the name of Barwick Parish Council to Barwick and Stoford Parish Council. This report asks for the authorisation of Council to carry out that consultation.

Recommendations

5. That Full Council agree to:
 1. Note the receipt of the request and its validity;
 2. Agree to undertake a Community Governance Review of the Parish of Barwick;
 3. Agree the Terms of Reference of the review as detailed in Appendix A, including the timetable and arrangements for public consultation;
 4. Agree that the review will be carried out by the Democratic Services Manager, in consultation with Ward Members, Area Development Lead Officer (South) and the Area South Committee;
 5. Note that further reports will be brought to Council in order that decisions may be made in respect of draft proposals and final recommendations of the Review.

Background

6. Before the coming into force of the 2007 Act, District Councils had power to vary the numbers on local councils by making an order. Procedures were not prescriptive and numbers on parish councils, or other Parish electoral arrangements, could be varied easily and quickly. Unfortunately this is no longer the case and the procedures prescribed for community governance reviews, set out in the 2007 Act, have to be followed even when the only issue to be considered is a variation in a parish council's numbers.
7. The Act allows for the public to petition for reviews in their areas. Reviews must be undertaken if petitions are received as follows:
 - Area with fewer than 500 electors - at least 50% of the electors
 - Area with between 500 and 2,500 electors – at least 250 of the electors
 - Area with more than 2,500 electors - at least 10% of the electors.
8. It is, however, not necessary for a petition to be received to initiate a review. The Parish Council has requested an increase in its numbers and it is for the District Council to decide whether it wishes to undertake a review of the Barwick and Stoford parish area with a view to increasing the size of the parish council and changing the parish name.

Comments from District Executive

9. This report was considered by District Executive on 2nd November where comments from the Scrutiny acknowledged the parish council wished to change its name and why, but, noted that the number of councillors requested seemed high for a parish of its size, and the reason for the increase in councillors did not appear to be based on population and representation. District Executive members were content for the report to be presented to Full Council.

Request from Barwick Parish Council

10. The Parish Council have given the following reasons to support their request to increase the size of the Parish Council to 12 members:-
 - Most of the Councillors work full-time - only two are retired.
 - 1 Councillor spends his time overseas for 6 months of the year and therefore is unable to take on much responsibility.
 - Some very large projects are coming up and more help is needed - possible relocation of village hall & new build, improvements to the recreation ground in Barwick.
11. Barwick Parish Council has put forward a request for an increase in numbers and a change of parish name. There is no formal guidance on the size of parish councils, but the minimum number is 5. The DCLG reports that, nationally, local councils representing the following electorates have, typically, the number of councillors stated:
 - Less than 500 – between 5 and 8 councillors
 - Between 501 and 2,500 – between 6 and 12 councillors
12. The 1972 Act, as amended, specifies that each parish council must have at least five councillors; there is no maximum number. The Electoral Commission has no reason to believe that this pattern of council size to population has altered significantly since the

research was conducted. Although not an exact match, it broadly reflects the council size range set out in the National Association of Local Councils Circular 1126; the Circular suggested that the minimum number of councillors for any parish should be 7 and the maximum 25.

13. Barwick has 958 electors. In the light of the reasons put forward by the Parish Council, officers consider that a review should proceed.
14. Allowing for the need to report to Council at the various stages of the review progress, it is estimated that the review will take 6 - 9 months to complete. It is suggested that any changes in the composition of the parish council that might be agreed take effect at the beginning of the next Council year in May 2019.

Community Governance Reviews – General Principles relating to Parishes and Parish Councils

15. Under the legislation the District Council must aim to ensure that community governance in the area under review:-
 - reflects the identities and interests of the community in that area
 - is effective and convenient
 - takes into account any other arrangements for the purpose of community representation or community engagement.
16. When considering this, the Council should take into account a number of factors, including:
 - the impact of community governance arrangements on community cohesion; and
 - the size, population and boundaries of any new local community or parish.
17. A review involves the following stages:
 - (1) Setting terms of reference of the review (if the Committee recommends a review in Barwick, suggested terms of reference are set out in Appendix 1);
 - (2) Publicising the terms of reference (for the purposes of the Act, the review formally commences when the terms of reference are published);
 - (3) Undertaking consultations with the local government electors for the area and any other person or body (including the Parish Council) who appears to have an interest in the review;
 - (4) Considering representations;
 - (5) Preparing and publishing draft proposals;
 - (6) Undertaking consultation on the draft proposals;
 - (7) Considering representations;
 - (8) Publishing recommendations;
 - (9) Making an order to bring into effect any decisions arising from the review;
 - (10) A review must be concluded within 12 months of the publication of the terms of reference.
18. When undertaking a CGR a principal council must have regard to guidance issued by the Secretary of State and the Electoral Commission. However, subject to this, it is for the Council to decide how to undertake the review.

Financial Implications

19. To produce a consultation leaflet for every elector and deliver them every household within the parish would cost in the region of £1,200. It is therefore proposed to conduct a 'light touch' review as the request has been made by the Parish Council and the proposal will incur no direct cost to the electorate.
20. Because the changes requested are minor, it is possible to do this by posters and leaflets within the Parish and adverts on the SSDC and Barwick Parish Council websites, rather than the usual method of sending a consultation leaflet to every registered elector. This would significantly reduce the cost to SSDC and should ensure that the cost is kept below £100.
21. There is no specific budget for Community Governance Reviews and therefore all costs will have to be absorbed within the existing Democratic Services budget for 2017/18.
22. There is no power to re-charge the cost of the review to any other Council, except by agreement. This is because the statutory power to conduct the review rests with this Council.

Corporate Priority Implications

23. No implications at the current time.

Carbon Emissions and Climate Change Implications

24. No implications at the current time.

Equality and Diversity Implications

25. All local government electors within the parishes of Barwick and Stoford will be consulted on the proposal and their views considered as part of the consultation process. The council must have regard to the need to secure that the community governance arrangements for the area reflects the identities and interests of the community in the area and are effective and convenient.

Background Papers

Local Government and Public Involvement in Health Act 2007

The Electoral Commission Guidance on Community Governance Reviews, April 2008

Request from Barwick PC dated 21st June 2017

Terms of Reference of the Community Governance Review of the Parish arrangements for Barwick

South Somerset District Council

LOCAL GOVERNMENT AND PUBLIC INVOLVEMENT IN HEALTH ACT 2007 COMMUNITY GOVERNANCE REVIEW

TERMS OF REFERENCE

Barwick Parish Council

INTRODUCTION

- **Setting the Context**

The Local Government and Public Involvement in Health Act 2007 provides for a principal council to conduct a community governance review at any time. The Council can undertake a review of the whole or part of its area. The Council is also under a duty to carry out a community governance review if it receives a valid community governance petition for the whole or part of the council's area or, a request from the Parish Council. However, the duty to conduct a review does not apply if:

- a) the principal council has concluded a community governance review within the last two years which in its opinion covered the whole or a significant part of the area of the petition; or
- b) the council is currently conducting a review of the whole, or a significant part of the area to which the petition relates.

In this case the District Council has been requested to undertake a review to change the name of Barwick Parish Council to Barwick and Stoford Parish Council, and, to increase the number of parish councillors from 10 to 12, following the receipt of a letter from the Parish Council.

These terms of reference relate to the area comprising the existing Barwick Council boundary as detailed on the attached map.

In undertaking the review, the Council will be guided by Part 4 of the Local Government and Public Involvement in Health Act 2007, the relevant parts of the Local Government Act 1972, Guidance on Community Governance Reviews issues in accordance with section 100(4) of the Local Government and Public Involvement in Health Act 2007 by the Department of Communities and Local Government and The Electoral Commission in April 2008, and the following regulations which guide, in particular, consequential matters arising from the review: Local Government (Parishes and Parish Councils) (England) Regulations 2008 (SI2008/625); Local Government Finance (New Parishes) Regulations 2008 (SI 2008/626). Section 81 of the Local Government and Public Involvement in Health Act 2007 requires the Council to publish its Terms of Reference in a review.

These Terms of Reference will be published by placing a copy on public deposit at the offices of South Somerset District Council at the Council Offices, Brympton Way, Yeovil BA20 2HT and on the Council's website at www.southsomerset.gov.uk

The matters on which the Community Governance Review is to focus are set out later in these Terms of Reference.

- **Why is the Council undertaking the review?**

The Review is being carried out in response to a written request from the Parish Council. The request seeks to change the name of Barwick Parish Council to Barwick and Stoford Parish Council, and, to increase the number of parish councillors from 10 to 12,

- **What is a Community Governance Review?**

A Community Governance Review is a review of the whole part or part of the district area to consider one or more of the following:

1. Creating, merging, altering or abolishing parishes;
2. The naming of parishes and the style of new parishes;
3. The electoral arrangements for parishes (the ordinary year of election; council size; the number of councillors to be elected to the council, and parish wardings) and
4. Grouping parishes under a common parish council or de-grouping parishes.

- **Who undertakes the review?**

The Council have approved the terms of reference for this review and will deal with all matters in connection with it through the relevant Ward Members and the Area South Committee which will make final recommendations to full Council following the review for their consideration and making of any necessary Reorganisation Order.

The lead officer with regard to this review is Angela Cox, Democratic Services Manager.

CONSULTATION

- **How the Council proposes to conduct consultations during the review?**

The Council has drawn up and now publishes this Terms of Reference document. This document lays out the aims of the review, the legislation that guides it and some of the policies that the Council considers important in the review.

In coming to its recommendations in the review, the Council will need to take account of the views of local people. The Act requires the Council to consult the local government electors for the area under review and any other person or body who appears to have an interest in the review and to take the representations that are received into account by judging them against the criteria in the Local Government and Public Involvement in Health Act 2007.

The Council intends to consult with all households and interested parties in the area, inviting initial submissions and seeking views on the proposed Parish Council name change. It is proposed to conduct a 'light touch' review as the request has been made by the Parish Council and the proposal will incur no direct cost to the electorate.

Because the changes requested are minor, it is possible to do this by posters and leaflets within the Parish and adverts on the SSDC and Barwick Parish Council websites, rather than sending a consultation leaflet to every registered elector. This would significantly reduce the cost to SSDC.

The Council will also identify any other person or body who it feels may have an interest in the review and write to them inviting them to submit their views at both stages of consultation.

This will include:

- Ward Members
- Tenants and Residents' Associations
- Groups and Societies
- Schools and Colleges
- Members of Parliament
- Somerset Association of Local Councils

- Local Political Parties
- The Police

The Council will also be pleased to receive comments from any other person or body that wishes to make representations; any such person that makes representations during the initial invitation to submit proposals will be invited to make comments in respect of the draft proposals.

As required by Section 79(3) of the Local Government and Public Involvement in Health Act 2007, the District Council will notify Somerset County Council that a review is to be undertaken, provide them with a copy of the terms of reference for the review and will consult them on the matters under review.

The Council intends to clearly publish all decisions taken in the review and the reasons for taking those decisions and will work towards the Government's view in undertaking the review that "Community Governance Reviews should be conducted transparently so that local people and other stakeholders who may have an interest are made aware of the outcome of the decisions taken on them and the reasons behind these decisions."

In accordance with the Act, representations received in connection with the review will be taken into account, and steps will be taken to notify consultees of the outcome of the review by publishing them on the Council's website at www.southsomerset.gov.uk, through general press releases, public notice adverts in local newspapers, placing key documents on public deposit at Council Offices and will communicate the final outcome of the review by communicating with all households in the area concerned by the review.

- **How to contact us:**

Any queries regarding this review should be directed to:

Angela Cox
Democratic Services Manager
South Somerset District Council
Council Offices
Brympton Way
Yeovil
BA20 2HT

E-Mail: angela.cox@southsomerset.gov.uk

Timetable for the Review

Publication of these Terms of Reference formally begins the review, which must be completed within twelve months.

The table below details indicative timescales for the review.

Action	Timetable	Dates
Compiling Terms of Reference		October 2017
Report to Council to approve terms of reference		November 2017
Publication of Terms of Reference		November 2017
Introductory Stage – Invite initial submissions	2 months	December – January 2018
Preparation of Draft Proposals and approval by Council	1 month	February 2018
Publication of Draft Proposals		March 2018 (following approval by Council)
Consultation on Draft Proposals	2 months	April – May 2018
Preparation of Recommendation / Reorganisation Order and approval by Council.	1 month	June 2018
Publication of Recommendations		June 2018
Publication of any Reorganisation Order		July / August 2018
Effective date of Order		1 April 2019
Town/Parish Council Elections		May 2019

ELECTORATE FORECASTS

- **The electorate forecasts for the district**

The Council has used the Register of Electors as at 1 September 2017 in providing the existing parish electorate figures. There are 958 people on the Register of Electors in the Parish of Barwick at this date.

When the Council comes to consider the electoral arrangements of the parishes in its area, it is required to consider any change in the number or distribution of the electors which is likely to occur in the period of five years beginning with the day when the review starts. There are no large anticipated increases in the number of electors in the parish over the next 5 years.

- **Demographic trends and influences in our area**

Although the Parish Council have indicated that there are no large scale developments anticipated in the parish, there will inevitably be ad-hoc building which will increase the number of electors requiring representation.

THE PRESENT STRUCTURE OF THE PARISH AND THE ELECTORAL ARRANGEMENTS

Present structure of the parish is:

Barwick		Ratio of Councillors to Electors
No. of Parish Councillors	10	1:96

Guidance in connection with the Local Government and Public Involvement in Health Act requires the consent of the Electoral Commission to be obtained if the Council may wish to alter the electorate arrangements for a parish whose existing arrangements were put in place within the previous five years by an order made either by the Secretary of State or the Electoral Commission. No such consent will be required following this review.

- **Previously unparished areas**

The Council is required by law to consider other forms of community governance as alternatives or stages towards establishing parish councils. There may be other arrangements for community representation or community engagement in an area, including area committees, neighbourhood management programmes, tenant management organisations, area or community forums, residents' and tenants' associations or community associations, which may be more appropriate to some areas than parish councils, or may provide stages building towards the creation of a parish council, which are already successfully creating opportunities for engagement, empowerment and co-ordination in local communities.

The Council will be mindful of such other forms of community governance in its consideration of whether parish governance is most appropriate in certain areas. However, the Council also notes that what sets parish councils apart from other kinds of governance is the fact that they are a democratically elected tier of local government with directly elected representatives, independent of other council tiers and budgets, and possessing specific powers for which they are democratically accountable.

PARISH AREAS

- **Introduction**

The legislation requires that the Council must have regard to the need to secure that community governance with the area under review:

1. Reflects the identities and interests of the community in that area, and
2. Is effective and convenient, and
3. Takes into account any other arrangements for the purposes of community representation or community engagement in the area.

- **Parishes**

The Council is anxious to ensure that electors should be able to identify clearly with the parish in which they are resident because it considers that this sense of identify and community lends strength and legitimacy to the parish structure, creates a common interest in parish affairs, encourages participation in elections to the parish council, leads to representative and

accountable government, engenders visionary leadership and generates a strong, inclusive community with a sense of civic values, responsibility and pride.

There is no request in this review to alter the existing parish boundaries, which remain easily identifiable.

- **Viability**

The Council is anxious to ensure that parishes should be viable and should possess a precept that enables them to actively and effectively promote the well-being of their residents and to contribute to the real provision of services in their areas in an economic and efficient manner.

Some parishes are anxious to take on the new power of well-being provided in the Local Government and Public Involvement in Health Act 2007; others hold Quality Parish status, while others are anxious to enter into charters with principal councils for the provision of local services. The Council sees these initiatives as important measures of effective and convenient local government and will respect them in this review.

NAMES AND STYLES

- **The naming of parishes**

The 'name' of a parish refers to the geographical name of the area concerned, whereas its status or 'style' allows for that area to be known as a town, community, neighbourhood or village, rather than as a parish. The status or style of the parish will be reflected in the name of any council of the parish. So, for example, the council of a parish, which has the style "town" will be known as the 'town council' and its councillors as the 'town councillors', etc.

There are legal requirements (as defined in Section 76 of the Local Government Act 1972), with regard to subsequent notification of any change of name made, to be sent to the Secretary of State, to the Director General of the Ordnance Survey and to the Registrar General; and also be published by the district council in the parish and elsewhere in such manner as they consider appropriate. The Local Government and Public Involvement in Health Act 2007 also provides that the Land Registry, the Valuation Office Agency, the Boundary Commission for England and the Electoral Commission are also informed.

- **Alternative styles**

The Local Government and Public Involvement Act 2007 has introduced 'alternative styles' for parishes. If adopted, the 'alternative style' would replace the style "parish". However, only one of these three prescribed styles can be adopted:-

"community", "neighbourhood" or "village".

A parish shall cease to have an alternative style if the parish begins to have the status of a town.

Where new parishes are created, the Council will make recommendations as to the geographical names of the new parishes and as to whether or not it should have one of the alternative styles.

ELECTORAL ARRANGEMENTS

- **What does “Electoral Arrangements” mean?**

An important part of the Council’s review will comprise giving consideration to “Electoral Arrangements”. The term covers the way in which a council is constituted for the parish. It covers:

- The ordinary year in which elections are held;
- The number of councillors to be elected to the council;
- The division (or not) of the parish into wards for the purpose of electing councillors;
- The number and boundaries of any such wards;
- The number of councillors to be elected for any such ward
- The name of any such ward

- **Ordinary year of election**

The Local Government Act 1972 states that ordinary election of parish councillors shall take place in 1976, 1979 and every fourth year thereafter (i.e. 2007, 2011, 2015, 2019 etc.) The Government has indicated that it would want the parish electoral cycle to coincide with the cycle for the district/borough council, so that the costs of elections can be shared.

However, where the next ordinary elections are not for some time, the Council may resolve to modify or exclude the application of sections 16(3) and 90 of the Local Government Act 1972 to provide for the first election to be held in an earlier year, with councillors serving a shortened first term to allow the parish electoral cycle to return to that of the district.

- **What considerations cover the number of parish councillors?**

The Government has advised, and this Council concurs that “it is an important democratic principle that each person’s vote should be of equal weight so far as possible, having regard to other legitimated competing factors, when it comes to the election of councillors”. Likewise, the Council notes that the number of parish councillors for each parish council shall be not less than five. There is no maximum number. The Aston Business School found the following levels of representation –

Electorate	Councillor Allocation
Less than 500	5 – 8
501 – 2,500	6 – 12
2,501 – 10,000	9 – 16
10,001 – 20,000	13 – 27
Greater than 20,000	13 – 31

The National Association of Local Councils (NALC) suggested that the minimum number of councillors should be seven and the maximum 25.

The government’s guidance is that “each area should be considered on its own merits, having regard to its population, geography and pattern of communities”. This Council is prepared to pay particular attention to its existing levels of representation, the broad pattern of existing council sizes, which have stood the test of time and the take up of seats at elections in its consideration of the matter.

It is recognised that the conduct of parish council business does not usually require a large body of councillors. By law, the Council in this review must have regard to the following factors when considering the number of councillors to be elected for the parish:

- The number of local government electors for the parish;

- Any change in that number which is likely to occur in the period of five years beginning with the day when the review starts.

The Council will also take into account the following considerations:

- To ensure that the allocation of councillors to parishes is equitable across the district, while acknowledging that local circumstances may occasionally merit variation.
- To appreciate that there are different demands and consequently different levels of representation are appropriate between urban and more rural parishes in the district.

The Council also acknowledges that there may be exceptions to the above, where some weight will be given to the following considerations in forming the proposals;

- A high precept and high levels of service provision;
- Where representation may be required to meet the challenges of population sparsity;
- Supporting a warding arrangement in a particular parish and achieving a good parity of representation between wards.

- **Parish Warding**

The Act requires that in considering whether a parish should be divided into wards for the purposes of elections for the parish council the Council should consider the following:

- Whether the number, or distribution, of the local government electors for the parish council would make a single election of councillors impracticable or inconvenient;
- Whether it is desirable that any areas of the parish should be separately represented on the council.

The government's guidance is that "the warding of parishes in largely rural areas that are based predominantly on a single centrally located village may not be justified. Conversely, warding may be appropriate where the parish encompasses a number of villages with separate identities, a village with a large rural hinterland or where, on the edges of towns, there has been some urban overspill into the parish".

With regard to urban parishes, the government has suggested, "there is likely to be a stronger case for the warding of urban parishes ...". In urban area community identity tends to focus on a locality, whether this be a housing estate, a shopping centre or community facilities. Each locality is likely to have its own sense of identify".

The Council will be mindful of this guidance, noting further that, "each case should be considered on its merits and on the basis of the information and evidence provided during the course of this review."

The Council also wishes to emphasise that warding arrangements should be clearly and readily understood by and should have relevance for the electorate in a parish; they should reflect clear physical and social differences within a parish: one parish but comprising different parts. Furthermore, ward elections should have merit; not only should they meet the two tests laid down in the Act, but they should also be in the interests of effective and convenient local government. They should not be wasteful of a parish's resources.

- **The number and boundaries of parish wards**

In reaching conclusions on the boundaries between parish wards, the Council will take into account community identify and interests in an area and will consider whether any particular ties or linkages might be broken by the drawing of particular ward boundaries.

Equally, the Council, during its consultations in this review is mindful that proposals, which are intended to reflect community identity and local linkages should be justified in terms of sound and demonstrable evidence of those identities and linkages.

The Council has noted the desirability of fixing boundaries which are, and will remain, easily identifiable, as well as taking into account any local ties which might be broken by the fixing of any particular boundaries. The Council also emphasises that ward boundaries should be clearly understood; they should represent the most appropriate parting of local attachments within a parish that comprises different parts. The Electoral Commission has suggested that the district wards should not split an un-warded parish and that no parish ward should be split by such a boundary. The relevant legal provisions do not apply to reviews of parish electoral arrangements, but the Commission has requested the Council to bear this in mind, which the Council will do.

- **The number of councillors to be elected for parish wards**

The Council has noted that it is required to have regard to the following when considering the size and boundaries of the wards and the number of councillors to be elected for each ward;

- The number of local government electors for the parish;
- Any change in the number, or distribution, of the local government electors, which is likely to occur in the period of five years beginning with the day when this review starts.

The government has advised, and this Council concurs that “it is an important democratic principle that each person’s vote should be of equal weight so far as possible, having regard to other legitimated factors, when it comes to the elections of councillors.” While there is no provision in legislation that each town/parish councillor should represent, as nearly as may be, the same number of electors, the Council considers that it is not in the interests of effective and convenient local government, either for voters or councillors, to have significant differences in levels of representation between different parish wards.

The Council is likewise anxious to avoid the risk that, where one or more wards of a parish are over represented by councillors, the residents of those wards (and their councillors) could be perceived as having more influence than others on the council. During the review process and in its consultations, the Council is committed to consistently showing the ratios of electors to councillors that would result from its proposals.

- **Naming of parish wards**

With regard to the names of parish wards, the Council will endeavour to reflect existing local or historic place names, and will give a strong presumption in favour of ward names proposed by local interested parties,

REORGANISATION OF COMMUNITY GOVERNANCE ORDERS AND COMMENCEMENT

The review will be completed when the Council adopts the reorganisation of Community Governance Orders. Copies of this order, the map(s) that show the effects of that order in detail, and the documents(s) which set out the reasons for the decisions that the Council has taken (including where it has decided to make no change following a review) will be deposited at the Council’s offices and on its website.

In accordance with the Guidance issued by the government, the Council will issue maps to illustrate each recommendation at a scale that will not normally be smaller than 1:10,000.

These maps will be deposited with the Secretary of State at the Department of Communities and Local Government and at the Council's Offices at Brympton Way, Yeovil BA20 2HT.

Prints will also be supplied, in accordance with the regulations, to Ordnance Survey, the Registrar General, the Land Registry, the Valuation Office Agency, the Boundary Commission for England and the Electoral Commission.

The provisions of the Order would take effect, for financial and administrative purposes, from 1st April in the designated year.

New or revised parish electoral arrangements come into force at ordinary parish elections, rather than parish by-elections, so they usually have to wait until the next scheduled parish elections, namely May 2019. They can come into force sooner, which will have the effect of cutting the term of the existing councillors. In addition the term of the new councillors will also be shortened to ensure that the parish election cycle continues to correspond with that of the District Council (and other parish councils) so as to ensure that election costs continue to be shared.

CONSEQUENTIAL MATTERS

- **General Principles**

The Council notes that a Reorganisation Order may cover any consequential matters that appear to the Council to be necessary or proper to give effect to the Order. These may include:

- The transfer and management or custody of property;
- The setting of precepts for new parishes;
- Provision with respect to the transfer of any functions, property, rights and liabilities;
- Provision for the transfer of staff, compensation for loss of office, pensions and other staffing matters.

In these matters, the Council will be guided by Regulations that have been issued following the 2007 Act.

In particular, the Council notes that the Regulations regarding the transfer of property, rights and liabilities require that any apportionments shall use the population of the area as estimated by the proper officer of the Council as an appropriate proportion.

Furthermore, the Council notes that the regulations regarding the establishment of a precept for a new parish require the Council to calculate the first anticipated precept for a newly constituted parish council and for the amount of that precept to be included in the Reorganisation Order.

- **District ward boundaries**

The Council is mindful that it may be necessary, although it is not anticipated, for it to recommend the Electoral Commission to make alterations to the boundaries of district wards or county electoral divisions to reflect the changes made at parish level. The Council notes that it will be for the Electoral Commission to decide if related alterations should be made and when they should be implemented, and that the Commission may find it appropriate to direct the Boundary Committee for England to conduct an electoral review of affected areas.

The Council notes that the Electoral Commission will require evidence that the Council has consulted on any such recommendations for the alterations to the boundaries of district wards to County electoral divisions as part of the review. Of course, such recommendations for alterations may only become apparent during the course of the review. Even so, the Council will endeavour to include any such draft recommendations for alterations at the earliest possible opportunity for consultation that will arise after they become apparent.

Where any such consequential matters affect Somerset County Council, the Council will also seek the views of that council with regard to alterations to electoral division boundaries in accordance with the government's guidance.

DATE OF PUBLICATION OF THESE TERMS OF REFERENCE

Date of Publication: 17 November 2017

Any modifications (if any) will be published as soon as practicable after they have been made.

Agenda Item 10

Report of Executive Decisions

Director: Ian Clarke, Support Services
Lead Officer: Angela Cox, Democratic Services Manager
Contact Details: angela.cox@southsomerset.gov.uk or (01935) 462148

This report is submitted for information and summarises decisions taken by the District Executive and Portfolio Holders since the last meeting of Council in September 2017. The decisions are set out in the attached Appendix.

Members are invited to ask any questions of the Portfolio Holders.

Background Papers

All Published

Ric Pallister, Leader of the Council
Angela Cox, Democratic Services Manager
angela.cox@southsomerset.gov.uk or (01935) 462148

Appendix

Portfolio	Subject	Decision	Taken By	Date
Leisure & Culture	Presentation on the work of SPARK Somerset (Voluntary and Community Action)	That the District Executive noted the presentation on the work of SPARK Somerset (Voluntary and Community Action)	District Executive	02/11/17
Finance & Legal Services	2017/18 Revenue Budget Monitoring Report for the Period Ending 30th September 2017	That District Executive agreed to:- <ul style="list-style-type: none"> a. note the current 2017/18 financial position of the Council b. note the reasons for variations to the previously approved Directorate Budgets as detailed in paragraph 7; c. note the transfers made to and from reserves outlined in paragraph 23 and the position of the Area Reserves as detailed in Appendix C and the Corporate Reserves as detailed in Appendix D; d. note the virements made under delegated authority as detailed in Appendix B. 	District Executive	02/11/17
Finances & Legal Services	2017/18 Capital Budget Monitoring Report for the quarter ending 30th September 2017	That District Executive agreed to:- <ul style="list-style-type: none"> a. note the content of the report; b. approve the revised capital programme spend as detailed in paragraph 6: c. note the review of schemes as detailed in Appendix B and approve Leadership Board proposals. d. note the review of schemes as detailed in Appendix B. 	District Executive	02/11/17

Portfolio	Subject	Decision	Taken By	Date
Property & Climate Change	The installation of a 14.8 kW photovoltaic array at Yeovil Innovation Centre Extension	That District Executive agreed:- a. to approve the spending of £16,111.70 (or any revised quote that does not compromise the rate of return) to install a photovoltaic array on the roof of the Yeovil innovation Centre extension; b. that the net savings of £1,020 should be added to the medium term financial plan for 2018/19 and beyond.	District Executive	02/11/17
Area West Chair/Democratic Services	Increase in Councillors and change of name of Barwick Parish Council – Community Governance Review (CGR)	That District Executive agreed:- a. to note the receipt of the request and its validity; b. to undertake a Community Governance Review of the Parish of Barwick; c. the Terms of Reference of the review as detailed in Appendix A, including the timetable and arrangements for public consultation; d. that the review will be carried out by the Democratic Services Manager, in consultation with Ward Members, Area Development Lead Officer (South) and the Area South Committee; e. that further reports would be brought to Council in order that decisions may be made in respect of draft proposals and final recommendations of the Review.	District Executive	02/11/17
Property, Climate Change & Income Regeneration	Notification of an Urgent Executive Decision: Disposal of 11-12 South Western Terrace,	That District Executive agreed to note that the Chief Executive in consultation with the Leader and Area South Chair approved: a. the marketing for sale of 11-12 South Western Terrace in line with the District Valuer's advice through an open market tender process;	District Executive	02/11/17

Portfolio	Subject	Decision	Taken By	Date															
	Yeovil (Confidential)	b. the acceptance of an offer to purchase, following the marketing period, in conjunction with the third party owner.																	
Environment & Economic Development	Waste Fees and Charges 2018/19	<table border="1"> <thead> <tr> <th></th> <th>2017/18</th> <th>2018/19</th> </tr> </thead> <tbody> <tr> <td>Garden waste bin collection</td> <td>£53.50 for one year subscription</td> <td>£55.40 for one year subscription</td> </tr> <tr> <td></td> <td>£100 for two year subscription</td> <td>£103.50 for two year subscription</td> </tr> <tr> <td>Garden waste sacks posted (per 10)</td> <td>£26.50 for 10 sacks</td> <td>£27.40 for 10 sacks</td> </tr> <tr> <td>Bulky waste</td> <td>£41.50 up to 3 items. Additional items £11 each up to 5 items</td> <td>£43 up to 3 items. Additional items £11.90 each up to a maximum of 5 items</td> </tr> </tbody> </table>		2017/18	2018/19	Garden waste bin collection	£53.50 for one year subscription	£55.40 for one year subscription		£100 for two year subscription	£103.50 for two year subscription	Garden waste sacks posted (per 10)	£26.50 for 10 sacks	£27.40 for 10 sacks	Bulky waste	£41.50 up to 3 items. Additional items £11 each up to 5 items	£43 up to 3 items. Additional items £11.90 each up to a maximum of 5 items	Portfolio Holder Decision	03/11/17
			2017/18	2018/19															
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Bulky waste	£41.50 up to 3 items. Additional items £11 each up to 5 items	£43 up to 3 items. Additional items £11.90 each up to a maximum of 5 items																	
The Portfolio Holder for Environment and Economic Development has agreed the proposed waste fees and charges as recommended by SSSC as set out in the table above.																			
Strategy & Policy	Affordable Housing Development Programme: Christopher House, Yeovil	The Portfolio Holder for Strategy and Policy has agreed to approve the allocation of £15,000 grant subsidy to Mendip YMCA for the proposed refurbishment of Christopher House, Yeovil from the affordable housing development programme unallocated reserve.	Portfolio Holder Decision	10/11/17															

Portfolio	Subject	Decision	Taken By	Date
Strategy & Policy	Affordable Housing Development Programme: West End Close, South Petherton	<p>The Portfolio Holder for Strategy and Policy has agreed to:</p> <ul style="list-style-type: none"> a) the allocation of £398,000 grant subsidy, from the affordable housing development programme unallocated general reserve, to Stonewater Housing Association to the proposed scheme at West End Close, South Petherton, subject to obtaining appropriate planning permission: b) the further allocation of £597,000 grant subsidy to Stonewater Housing Association to the proposed scheme, subject to obtaining appropriate planning permission and to there being sufficient funds being allocated by the District Executive to the affordable housing development programme for 2018/19 onwards 	Portfolio Holder Decision	10/11/17

Agenda Item 11

Audit Committee

This report summarises the items considered by the Audit Committee on 26th October:

Annual Audit Letter (Agenda Item 6)

David Johnson, Engagement Manager, Grant Thornton presented his report to members. He explained that the Annual Audit Letter provided a summary of the year.

He advised members of some key points from within the letter. These included;

- Page 10 of the report detailed risks which had been highlighted. These included Valuation of Property and Valuation of pension fund net liability. He advised that further discussions had taken place with the S151 Officer and the finance team to agree a way forward.
- He drew member's attention to page 13 of the agenda. The first phase of the Transformation Project had now taken place and the opinion which was given will be revisited next near once the next phase has begun.

In response to a member's question, the Engagement Manger advised that the figure of £1.6 million detailed on page 14 had been amended following an early Transformation report which contained outline figures. The increase was the result of a more detailed assessment of the profile of the Councils workforce.

The Engagement Manager advised that there was a typing error on page 16 of the agenda. £49,726 should read £49,276.

He further advised that the Housing Benefit Audit was on-going and was not included within the letter; however a report will be referred to the Audit Committee in December.

RESOLVED: that members noted the report.

Treasury Management Practices (Agenda Item 7)

The Principal Accountant presented her report to members. She advised that this was an annual report which outlined the 12 Treasury Management Practices which the Council needed to comply with.

She advised there were very few amendments to the report; however there had been a change to the job title of the S151 Officer.

The Chairman pointed out that page 37 of the agenda detailed the responsibilities of the Audit Committee.

One member advised that on page 39 of the report, item 3 – first sentence, that it should read 'their' rather than 'his.'

In response to a member's question, the Principal Accountant confirmed that the third party funds which were detailed on page 41 had to remain held as part of the Council accounts.

RESOLVED: that members approve the Treasury Management Practices.

46. **Treasury Management Strategy Statement and Investment Strategy 2017/18 - Mid-year review (Agenda Item 8)**

The Principal Accounted presented the report to members. She pointed out that there were two regulatory changes which were included in the report, which were to MiFID II and to the CIPFA Consultation on Prudential and Treasury Management Codes. She advised that these would be included within the 2018/19 strategy.

She informed members that the Council had decided to opt to be a 'professional customer', rather than opting to be treated as a retail client.

She advised that amendments to the statement were shown in yellow and included some amendments to job titles.

She clarified some of the alterations for members. She advised members that the figures contained in point 4.6 included property investments which had been agreed by other committees. She advised that the strategy now incorporated the plans to acquire further investment properties. She also pointed out item 5.6 which had been amended to increase the amount that the council could borrow to allow for investment properties to be purchased.

She advised that there was a typing error on pages 71. She explained that the brackets should be removed from Prudential Indicator 2 for 2018/19 and 2019/20 as the figures were a cost rather than an income.

She responded to members questions and advised that any future amendments to the TMSS would be referred to the Audit Committee. She also advised that Arlingclose would be attending a future meeting of the committee to provide advice and to provide a briefing on investment borrowing.

Some members expressed concern over the high amount of borrowing which was included in the report.

RESOLVED: that members agreed to note the report, however they were aware of the dangers, and agreed that the strategy would require careful review and dedicated monitoring of future expenditure.

47. **Fraud and Data Team Update (Agenda Item 9)**

The Fraud and Data Manager presented her report to members. She advised that Data Protection was a big concern for the authority and, in particular, the data being handled by third parties hence an audit had been commissioned to assess the extent of compliance. Following the audit, guidance had now been provided again to managers.

She further advised that some phishing training and testing had been provided to staff by the IT team to reinforce the advice not to click on unknown email attachments etc as these often were the source of viruses and malware.

She advised members that, following the restructure, as part of the Transformation project, responsibility for preparing for the General Data Protection Regulation (GDPR) was unclear and although a plan was in place there were insufficient staff resources to deliver it on time. Under the re-structure, the Fraud and Data Officer was to become a Team Leader on the Support Services Case Management Team and the Fraud and Data Manager herself was to become a Legal Specialist within Support Services and although she hoped that they would both be

involved in GDPR preparation and data protection issues (as they were both qualified), this had not been confirmed. In addition, the loss of the Data and Fraud Intern to the Transformation Team last November meant there was a reduction in staff resource within the team and so little or no progress was being made on counter fraud matters.

In response to a member's question, she confirmed that the Civil Contingencies Manager and the Risk and Procurement Manager were no longer in post although she was unclear exactly when the former had left. She was unaware whether the tasks assigned to these members of staff under the audit had been carried out but the Fraud and Data team would be following up on the outstanding issues.

Members suggested that they would like to see the report included on the Forward Plan for every meeting of the Audit Committee.

Laura Wicks, Senior Auditor SWAP, agreed that staff resource was a big concern.

The Chairman advised that he was concerned about the opportunity for major fraud and cyber-crime which cannot be addressed at this time, due to staff shortages.

RESOLVED: that members noted the report however the committee agreed that they were very concerned at the risk to the authorities data and risk of fraud through the lack of resources available to safeguard the authority overall.

Cllr Derek Yeomans
Chairman of Audit Committee

Agenda Item 12

Scrutiny Committee

This report summarises the work of the Scrutiny Committee since 21 September 2017.

The committee met on 3rd and 31st October 2017 to consider:

Scrutiny committee members considered the reports within the District agenda for 5 October 2017 and made the following comments:

The Issue and Use of Section 19 and Section 22 Permits for Road Passenger Transport in Great Britain – Implications for Community Transport Schemes Within SSDC (Agenda item 6)

- Members sought clarification about whether the two local MPs had been contacted about the matter,
- Members requested clarification of additional services to those mentioned in the report that could also be adversely affected.
- Scrutiny members endorsed the recommendations.

Floating Support for Vulnerable Individuals in South Somerset (Agenda item 7)

- Scrutiny made no comments.

South Somerset Authority Monitoring Report (September 2017) (Agenda item 8)

- Page 25 – members sought clarification that the points regarding employment would be included in the Local Plan Review.
- Members also felt that house price information would be very relevant. It was acknowledged this Monitoring Report would be an important ‘feed-in’ document to the Local Plan review.

Local Plan Review – Issues and Options Document for Consultation (Agenda item 9)

- Members requested that following be circulated to all members
 - the presentation from the recent member briefing
 - details of the programme for public consultation
 - the final agreed consultation document
 - the simplified accessible summary consultation document
 - copies of the individual settlement leaflets are sent to the district Councillor representing those areas
- Some members suggested it would be useful to have an additional appendix with all the Questions duplicated and collated in one section for ease of reference.
- Page 91, point 12 - regarding the change in the number of dwellings to 13,200, members queried how the figure compared to that in the existing adopted Local Plan, and how it would affect the status of our five year land supply.
- Scrutiny sought clarification that the higher delivery of housing in market towns and lower delivery in Yeovil and Chard, had been reflected in the consultation document.
- Some members queried some parish specific detail in the consultation document where outline planning consent had recently been granted. It was queried if this made the proposed consultation document already out of date?
- Members felt that the table on page 64 of the agenda – Figure 10.2 in the Monitoring Report should be included in the consultation document for clarity, as it detailed

residential completions and commitments against the adopted Local Plan requirements.

- Members felt many parishes would want to see clear information about the current position with the five year land supply detailed within the consultation document.
- Scrutiny were otherwise content that the recommendation go forward.

SSDC Transformation Programme – Progress Report (Agenda item 10)

- Members sought clarification that when staff left the authority they would no longer have access to Yammer.
- Scrutiny requested reassurance that the new website will be user friendly and have offered to assist from a grass route perspective to provide suggestions and carry out testing.
- Page 101 - Budget - Members queried the budget for 'Programme Office' and what it covered. It was also noted £21,721 had been spent under 'misc' which didn't appear to have been allocated and members queried if it would come from the contingency?
- Scrutiny queried if there were any additional risks associated with bringing forward phase 3.
- Scrutiny sought re-assurance with regard to the number of risks categorised as Medium at this stage of the project and asked if there should be any reason for concern.
- Members noted that Locality Working was not specifically mentioned anywhere in the report and queried if there was a reason for this? Scrutiny raised some concerns about how the aspect of Locality Working was progressing, and if all members would have the opportunity to feed into ideas about the future of Locality Working.
- Page 107 – Scrutiny noted it would be useful if future reports could indicate if the savings per quarter were above or below target.

Community Right to Bid Half Year report – April 2017 to September 2017 (Agenda item 11)

- Scrutiny made no comments.

District Executive Forward Plan (Agenda item 12)

- Scrutiny made no comments.

Scrutiny committee members considered the reports within the District agenda for 2nd November 2017 and made the following comments:

Presentation by SPARK Somerset (Voluntary and Community Action) (Agenda item 6)

- Members sought re-assurance that SPARK were meeting targets and performing as expected, as they were financially supported by SSDC.

2017/18 Revenue Budget Monitoring Report for the Period Ending 30th September 2017 (Agenda item 7)

- Members noted both budget reports seemed to be lacking context in places with addresses of some projects being omitted. E.g. Page 7, para 7 – the comment

doesn't refer to the notes being related to the Westlands project, Page 30, para 10 table – Millers site doesn't detail that this is in Crewkerne etc.

- Page 9, para 18 – members queried how relevant was the drop in collection rates, and was the reason for the drop known? Scrutiny also asked if we benchmark our collection rates with other authorities?
- Page 12 – New Homes Bonus – it was noted that changes were likely in the future and queried if officers knew the likely effect should those changes happen, or if they might have a major or minor impact. Some members queried if it was possible to scope for any likely scenarios.
- Page 14 – bottom line of table. Scrutiny queried if the canteen facility is subsidised?

2017/18 Capital Budget Monitoring Report for the Quarter Ending 30th September 2017 (Agenda item 8)

- Page 30, para 9 - members queried whether the word 'income' should say expenditure instead, as otherwise the sentence did not seem to make sense?
- Appx B on page 43 – members commented it would be useful if the Leadership Board Proposals were SMART and had an indication of timeframes detailed.
- Middle of lower table on page 41 – Scrutiny sought clarification about when the funding allocation for 'Investment in Market Housing' had been agreed it would be useful if all future monitoring reports could have an additional column with the decision date and link to the report so you could refer back to the report and minutes

The Installation of a 14.8 kW Photovoltaic Array at Yeovil Innovation Centre (Agenda item 9)

- A member asked some technical questions about the project (issues around insurance, potential vandalism, and types of meters etc) , and Scrutiny were satisfied that the comments had been adequately addressed by the Portfolio Holder at the Scrutiny meeting.
- Members sought reassurance that there would be no business rates liability regarding the installation of the photovoltaic panels.
- Some members were concerned about the timeframes involved for the project, and if there were to be any slippage with the project installation if there would be a risk of failing to meet the deadlines to receive the specified feed-in tariff?
- Scrutiny queried the risk matrix, and noted the increased risks of proceeding with the project seemed unusual.

Increase in Councillors and Change of Name of Barwick Parish Council – Community Governance Review (CGR) (Agenda item 10)

- Members acknowledged the parish council wished to change its name and why. However members did note that the number of councillors requested seemed high for a parish of its size, and the reason for the increase in councillors seemed to not be based on population and representation.

District Executive Forward Plan (Agenda item 11)

- Scrutiny made no comments.

Notification of an Urgent Executive Decision: Disposal of 11-12 South Western terrace, Yeovil (Confidential) (Agenda item 14)

- Scrutiny made several comments with regard to the process in confidential session.

Task and Finish reviews

Council Tax Support Scheme 2018 –The Task and Finish group need to review some data in response to monitoring recommendations made in the last Scrutiny Task and Finish report for 2017/18 scheme, the report for the 2018 scheme should be presented at the next Scrutiny Committee meeting

Council Tax Support Scheme 2019 – The Task and Finish group had their first meeting and sought re-assurance with regard to the financial support/pressure to make savings and the potential risks or complications of making policy changes at a time when there will be significant change as a result of Transformation

Homefinder Somerset Plain English Policy No updates since the last meeting

Transformation – Accessible Services This Task and Finish review will commence in January and will work with the Transformation team to identify and deliver Best Practice to provide accessible on-line information and services for all.

Car Parking Charges – This Task and Finish review will commence when resources permits, SSDC has lots of data to help inform the Task and Finish groups strategy for conducting the review.

Cllr Sue Steele
Chairman of Scrutiny Committee

Agenda Item 15

Date of Next Meeting

Members are asked to note that the next scheduled meeting of the Full Council will take place on **Thursday, 14th December 2017** in the Council Chamber, Council Offices, Brympton Way, Yeovil **commencing at 7.30 p.m.**
