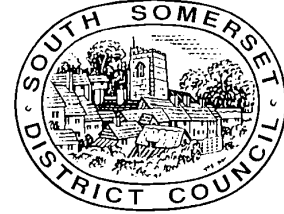


South Somerset District Council

Notice of Meeting



Audit Committee

Making a difference where it counts

Thursday 26th October 2017

10.00 am

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

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



The following members are requested to attend the meeting:

Chairman: Derek Yeomans
Vice-chairman: Tony Lock

Jason Baker
Mike Best
Carol Goodall

Anna Groskop
Val Keitch
Graham Middleton

David Norris
Colin Winder

If you would like any further information on the items to be discussed, please contact the Democratic Services Officer on 01935 462596 or democracy@southsomerset.gov.uk

This Agenda was issued on Wednesday 18 October 2017.

Ian Clarke, *Director (SupportServices)*

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



INVESTORS IN PEOPLE

Information for the Public

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

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

The terms of reference of the Audit Committee are:

Internal Audit Activity

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

External Audit Activity

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

Regulatory Framework

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

Financial Management and Accounts

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

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

Overall Governance

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

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

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

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.

Members questions on reports prior to the Meeting

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

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

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

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

Audit Committee

Thursday 26 October 2017

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on Thursday 28th September 2017.

2. Apologies for absence

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.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on Thursday 23rd November 2017 in the Main Committee Room, Brympton Way, Yeovil.

Items for Discussion

6. Annual Audit Letter (Pages 5 - 17)

7. Treasury Management Practices (Pages 18 - 52)

8. Treasury Management Strategy Statement and Investment Strategy 2017/18 - Mid-year review (Pages 53 - 81)

9. Fraud and Data Team Update (Pages 82 - 93)

10. Audit Committee Forward Plan (Pages 94 - 95)

Agenda Item 6

Annual Audit Letter

Director: Ian Clarke, Support Services
Lead Officer: Paul Fitzgerald, S151 Officer
Karen Gubbins, Principal Accountant
Contact Details: Karen.gubbins@southsomerset.gov.uk or 01935 462456

Purpose of the Report

This report introduces the annual audit letter for the 2016/17 financial year.

Recommendation

The Audit Committee is asked to:

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

Introduction

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

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

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

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

Statement of Accounts

An unqualified opinion was given on the Statement of Accounts.

The Value for Money Conclusion

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

Financial Implications

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

Background Papers: *SSDC Audit Findings Report*

The Annual Audit Letter for South Somerset District Council

Year ended 31 March 2017

10 October 2017

Barrie Morris

Engagement lead

T 0117 305 7708

E barrie.morris@uk.gt.com

David Johnson

Engagement Manager

T 0117 305 7727

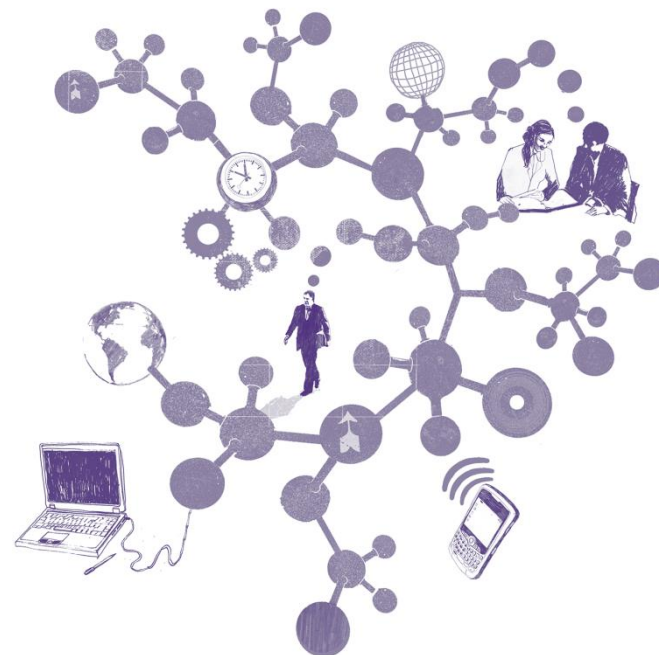
E david.a.johnson@uk.gt.com

Beth Garner

In Charge Accountant

T 0117 305 7726

E beth.ac.garner@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	8

Appendices

A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at South Somerset District Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 27 July 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 27 July 2017.

Certificate

We certified that we had completed the audit of the accounts of South Somerset District Council in accordance with the requirements of the Code on 27 July 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship and responded proactively to issues that you have raised. Together we have delivered some good outcomes.

- We delivered an efficient audit, and issued our opinion on the financial statements and value for money conclusion before 31 July, the accounts deadline for the 2017/18 accounts, and in line with the timescale we agreed with you
- We shared our insight with you and provided regular audit committee updates covering best practice, along with our thought leadership publications.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
September 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1.62 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower level of specific materiality for senior officer remuneration and auditor's remuneration, to reflect the increased public interest in these areas.

For reporting errors to the Audit Committee in our Audit Findings Report, we use a lower threshold of £81,000.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the S151 Officer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our work identified a variance between the Valuation report and the amounts recorded within the Fixed Asset Register and the Statement of Accounts.</p> <p>There was a variance between the valuer's report and the Fixed Asset register of £219k. Further work was undertaken and identified that the variance was due to an error by the valuer whereby three assets were double counted. Therefore we concluded that the Fixed Asset Register and the Balance Sheet have been accurately and appropriately stated.</p> <p>The variance was below materiality but above the threshold for reporting to those charged with governance.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>We note that the estimates used by the Council's actuary (Barnett Waddingham) in respect of the discount rate, which impacts on the value of future liabilities, was at the top end of the expectations set out by the Auditor's Expert (PWC). As this represents a difference in estimation technique, we undertook additional work to gain appropriate assurance that the Council's approach was reasonable.</p> <p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Page 10

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').</p> <p>The Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis (EFA) has been introduced. The key changes are:</p> <ul style="list-style-type: none"> the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings an EFA note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES. The changes will remove some of the complexities of the current segmental note other changes to streamline the current MIRS provide options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns. 	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work identified that the restated 2015-16 figures had been incorrectly calculated. They were adjusted by the finance team in the final version of the audited statement of accounts and the adjustments were not material.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 27 July 2017.

We recommended a number of adjustments to improve the presentation of the financial statements. No adjustments affected the Council's reported financial position.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Transformation Programme Arrangements are not sufficiently robust to deliver the overall Transformation Programme and safeguard the Council's investment and ongoing service delivery.</p>	<p>We will review the project management arrangements for ensuring the proper implementation of the new operational model and the assumptions used for the savings outlined in the Medium Term Financial Strategy.</p>	<p>The Council, in common with other local authorities, are facing a number of significant challenges across a number of fronts. The most significant challenge is financial with the Council required to identify £2.7m of savings from the current budget by 2021-22, net of £2m savings as per the initial high level transformation business case, and these are aligned with other challenges such as a new generation of service users who expect to be able to access information, and services, digitally.</p> <p>In order to address these challenges the Council had to consider new ways of service delivery and opportunities to identify and implement savings through reducing staff in line with a new, more streamlined, organisation.</p> <p>Against this background the Council has launched the Transformation Programme so that they can be in a better, more effective and resilient position, in the future.</p> <p>The implementation of the TP will require a major restructure of both senior management and all staff within the organisation.</p> <p>Part of this process has required a restructure of the management structure which was originally based on a model of reducing six assistant directors to three area leads and a Deputy Chief Executive. Following the departure of the Deputy Chief Executive this has been revised and there are now four area leads covering:</p> <ul style="list-style-type: none"> • Service delivery • Commercial Services and Income Generation • Support Services • Strategy and localism <p>The original business case presented to Board in March 2016 projected costs for the programme was the total one of costs, including redundancy, projected at £3.1m, with programme costs of £1m and capital of £1.3m, producing an overall total projected cost of the transformation project over the five years of £5.5m.</p> <p>Following this business case, a transformation reserve was established which, at February 2016, stood at £1.6m, which was mainly to fund redundancies.</p> <p>Subsequent to this initial business case, a more detailed business case review was undertaken to produce a more robust cost analysis. This was presented to the District Executive in April 2017. This review identified that additional costs of £2m would be incurred which would be offset by £0.5m savings. The key element of this increase is as a result of a more detailed assessment of the profile of the Council's workforce.</p>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Transformation Programme</p> <p>(Continued)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 15</p>		<p>In order to facilitate this process a new governance process has been introduced whereby a new high level steering group has been formed. The purpose of this new structure is to ensure decision making is delegated to the appropriate level and that decisions are undertaken in a timely manner to make sure that the programme is successful. The proposals to create new arrangements include a High Level Steering group and a new Programme Team Board to assist programme delivery. There is member representation on both the steering group and the programme Board.</p> <p>Management and member representation is considered adequate to allow decisions to be made at the appropriate level and it is also noted, in discussion with management, that the S151 officer is now a member of the transformations Board.</p> <p>Conclusion</p> <p>From our preliminary review of the transformation programme we have concluded that the risk was sufficiently mitigated that an unqualified opinion can be provided. It is recognised that the delivery of the transformation project will be implemented in 2017-18 and 2018-19 and we will continue to keep this under</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	49,726	49,726	49,276
Housing Benefit Grant Certification	10,493	TBC	9,898
Total fees (excluding VAT)	60,219	TBC	59,174

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports are shown under 'Fees for other services'. We will report to you our final fees in relation to this work through our certification report once this has been completed in November 2017.

Reports issued

Report	Date issued
Audit Plan	27 April 2017
Audit Findings Report	27 July 2017
Annual Audit Letter	26 October 2017

Fees for other services

Service	Fees £
Objection *	11,000

* Fee for other services

The proposed fee for work undertaken on the objection raised on the accounts is an estimate and is subject to confirmation by PSAA.



© 2017 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk

Agenda Item 7

Treasury Management Practices

Director: Ian Clarke, Support Services
Lead Officer: Karen Gubbins, Principal Accountant
Contact Details: Karen.gubbins@southsomerset.gov.uk or 01935 462456

Purpose of the Report

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

Recommendation

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

Background

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

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

The Treasury Management Practices comprise:

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

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

Financial Implications

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

Background Papers: CIPFA Treasury Management Code of Practice

Treasury Management Strategy Statement
Treasury Management Operations Manual

Treasury Management Practices

Principles and Schedules

September 2017



South Somerset District Council

Introduction

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

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

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

The Treasury Management Practices (TMPs) comprise:

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

TMP 1: Risk management

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

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

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

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

Schedule:

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

- The S151 Officer is responsible for setting prudent criteria and the Council's treasury advisors will also provide guidance and assistance in setting the criteria
- The criteria will be agreed by Audit Committee/Full Council
- The current criteria is contained within the operations manual
- The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support which now includes resolution mechanisms for failing financial institutions, CDS information, the composition of an institution's balance sheet liabilities). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties
- The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.

Appendix 1

- Higher time and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress).
- Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.

Approved methodology for changing limits and adding/removing counterparties

- The S151 Officer has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above
- Where an entity's credit rating is downgraded so that it fails to meet the minimum 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 other existing investments with the affected counterparty.

Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative' or 'credit watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known.

Counterparty list and limits

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

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

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

Details of credit rating agencies' services and their application

- The Council considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.
- No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the minimum credit rating criteria.

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

- The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information of share price. The Council's Treasury Advisor also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-

in) of a bank's unsecured liabilities should this be required by the regulatory authorities. In addition the S151 Officer reads quality financial press for information on counterparties

2. **Liquidity Risk Management: Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objective will be thereby compromised.**

Principle: The S151 Officer will ensure the Council has adequate (though not excessive) cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

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

Schedule:

Cash flow and cash balances

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

Short term investments

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

Temporary Borrowing

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

Bank overdraft and standby facilities

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

the Council's finances, against which the Council has failed to protect itself adequately.

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

Schedule:

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

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

Managing changes to interest rate levels

- The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.
- The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.
- The Council may determine it is more cost effective in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing or refinancing in future years when interest rates are expected to be higher.
- Alternatively, the Council may consider forward starting loans 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.
- Interest rate forecasts are provided by the Council's advisors and are closely monitored by the treasury team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Audit Committee as necessary.
- For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.

Details of approved interest rate exposure limits

- The upper limits on net fixed interest rate and net variable interest rate exposures are determined each year as part of the Treasury Management indicators now included in the annual Treasury Management Strategy Statement.

Details of hedging tools used to manage risk

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

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

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

Schedule:

Exchange rate risk management

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

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

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

Schedule:

Projected capital investment requirements

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

Debt profiling, policies and practices

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

Policy concerning limits on revenue consequences of capital financings

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

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

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

Schedule:

References to relevant statutes and regulations

- The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:
 - CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments
 - CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities

Appendix 1

- CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
- CIPFA Standard of Professional Practice on Treasury Management
- The Local Government Act 2003
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments
- The CLG's statutory Guidance on Minimum Revenue Provision (MRP)
- The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments
- The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
- LAAP Bulletins
- Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards)
- Accounts and Audit Regulations 2003, as amended together with CLG's Guidance
- The Localism Act 2011
- The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets
- Council's Constitution including:-
 - Standing Order relating to Contracts
 - Financial Regulations
 - Scheme of Delegation

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

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

Required information from counterparties concerning their powers/ authorities

- Lending shall only be made to institutions on the Council's authorised lending list or in securities which meet the Council's approved credit criteria.
- The Council will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from any other bank or building society authorised to operate in the UK thereby minimising legal and regulatory risk. The list of approved sources of borrowing is contained in TMP 4.

Statement on political risks and management of the same

- Political risk is managed by:
 - adoption of the CIPFA Treasury Management Code of Practice
 - adherence to Corporate Governance (TMP 12 – Corporate Governance)
 - adherence to the Statement of Professional Practice by the S151 Officer
 - the roles of the Audit Committee

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

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

Schedule:

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

- Segregation of duties minimises the possibility of fraud and loss due to error and is detailed in TMP 5 Organisation, Clarity and segregation of responsibilities and, dealing arrangements.
1. Electronic Banking and Dealing
 - a) The Council's online banking service provided by Natwest is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data
 - b) Access to the Council's Treasury management drive is limited to those roles listed below, each having a separate log-on and password
 - S151 Officer
 - Finance Manager
 - Principal Accountant
 - Management Accountant
 - Benefits and Control Officer
 - Insurance and Accounting Technician
 - c) Full procedure notes covering the day to day operation of the on-line banking system and the treasury management systems are documented and included within the operations manual.
 2. Standard Settlement Instructions
 - a) a list is maintained of named officers who have the authority to transact loans and investments
 - b) Brokers and counterparties with whom the Council deals direct are provided a copy of the Standard Settlement Instructions list
 3. Payment authorisation
 - a) payments can only be authorised by an agreed signatory(ies) of the council, the list of signatories having previously been agreed with the Council's bank
 - b) inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts

Verification

- Loans and investments will be maintained in registers which will include fees and brokerage paid.

Appendix 1

- Transactions will be cross checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.
- When receiving requests for change of payment details. Due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before amending payment details.

Substantiation

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

Internal Audit

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

Contingency Management

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

Insurance Cover details

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

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

Schedule:

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

- Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these

risks, capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.

- Additionally, should the Council have segregated fund management arrangements, then risk control guidelines will be set for each fund management agreement to control market risk:
 - (a) Maximum weighted average duration of the fund;
 - (b) Maximum permitted exposure to gilts/bonds;
 - (c) Maximum maturity of any instrument.

Accounting for unrealised gains/losses

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

TMP 2: Performance Measurement

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

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

Schedule:

Policy concerning methods for testing value for money

- Best value reviews will include the production of plans to review the way services are provided by :
 - Challenging
 - Comparing performance
 - Consulting with other users and interested parties
 - Applying competition principles

in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

Policy concerning methods for performance measurement

- Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability.
- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.

Appendix 1

- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.
- Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to
 - 1) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and
 - 2) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.
- In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.

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

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

Benchmarks and calculation methodology with regard to risk and return

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

Best Value

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

TMP 3: Decision Making and Analysis

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

Schedule:

Major treasury decisions

Appendix 1

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

Process

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

Delegated powers for treasury management

- The S151 Officer has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.

Issues to be addressed, evaluation, authorisation

- In exercising these powers, the S151 Officer and those to whom the treasury activity have been delegated will
 - have regard to the nature and extent of any associated risks to which the Council may become exposed;
 - be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;
 - be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail;
 - ensure that the perceived credit risk associated with the approved counterparties is judged satisfactory and is within agreed limits;
 - be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive;
 - follow best practice in implementing the treasury transaction.
- In exercising Borrowing and Funding decisions, the responsible person will:
 - evaluate economic and market factors that may influence the manner and timing of any decision to fund;

Appendix 1

- consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;
 - consider the use of internal resources and/or, the most appropriate periods to fund and repayment profiles to use;
 - consider ongoing revenue liabilities created.
 - where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.
- In exercising Investment decisions, the responsible person will:
 - Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;
 - consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;
 - consider the risk associated with unsecured investments with banks and building societies
 - consider the alternative investment products and techniques available if appropriate.

Processes to be followed

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

Evidence and records to be kept

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

TMP 4: Approved Instruments, Methods and Techniques

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

Schedule:

Approved treasury management activities

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

Appendix 1

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

Approved capital financing methods and types/sources of funding

- On balance sheet
 - Public Works Loans Board (PWLB) loans and its successor body
 - long term money market loans including forward starting loans and LOBOs
 - temporary money market loans (up to 364 days).
 - bank overdraft
 - loans from bodies such as the European Investment Bank (EIB)
 - Stock issues
 - Deferred Purchase
 - Government and EU Capital Grants
 - Lottery monies
 - Other Capital Grants and Contributions
 - Private Finance Initiative
 - Operating and finance leases
 - Hire Purchase
 - Sale and leaseback
- Internal Resources
 - Capital Receipts
 - Revenue Balances
 - Use of Reserves
- Approved sources of long-term and short-term borrowing include
 - Public Works Loan Board (PWLB) and its successor body
 - Any institution approved for investments
 - Any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds
 - UK Municipal Bonds Agency and other special purpose vehicles created to enable local authority bond issues
- The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

Approved investment instruments

- The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).
- The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply.

- Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF), and UK local authorities
 - Banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit)
 - Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
 - Treasury Bills
 - Gilts
 - Bonds issued by multilateral development banks
 - Sterling denominated bonds by non-UK sovereign governments
 - Covered bonds (i.e. those with underlying collateral)
 - Unsecured corporate bonds
 - Reverse Repurchase Agreements ('reverse repos')
 - Investments with Registered Providers of Social Housing (i.e. housing associations)
 - Commercial paper
 - Floating Rate Notes
 - Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534 and subsequent amendments
 - Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534 and subsequent amendments
- The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the manager

Use of Derivatives

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

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

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

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

recording and administering of treasury management decisions, and the audit and review of the treasury management function.

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

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

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

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

Schedule:

- Limits to responsibilities at Executive levels

Council

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

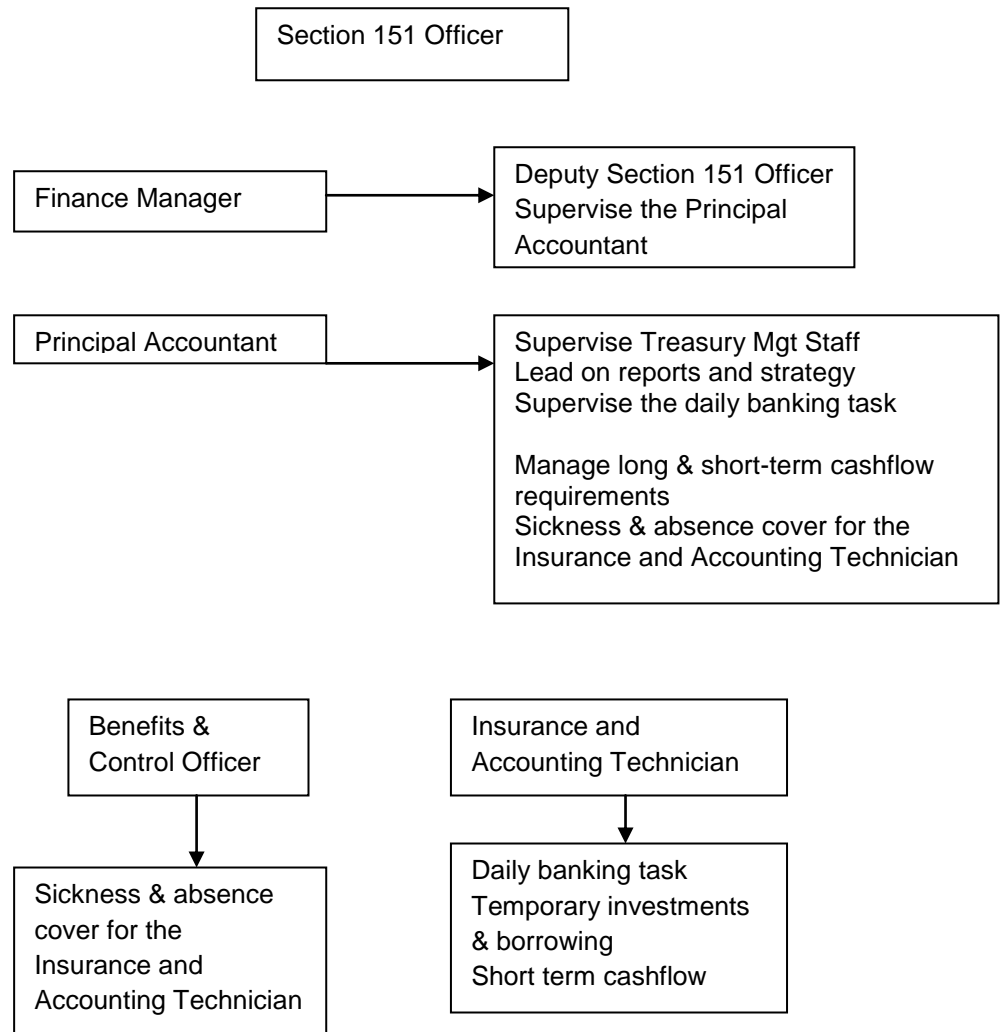
Audit Committee

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

- Principles and practices concerning segregation of duties

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

- Statement of duties/responsibilities of each treasury post



Statement of duties/responsibilities of each treasury post

S151 Officer

1. The S151 Officer will:
 - a) Recommend clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance
 - b) Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy
 - c) Submit regular treasury management policy reports
 - d) Submit budgets and budget variations
 - e) Receive and review management information reports
 - f) Review the performance of the treasury management function and promote best value reviews
 - g) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
 - h) Ensure the adequacy of internal audit, and liaising with external audit
 - i) Recommend the appointment of external service providers.
- 2 The S151 Officer has delegated powers in consultation with the Director –Support Services through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.
- 3 The S151 Officer may delegate his power to borrow and invest to members of her staff. The Finance Manager, Principal Accountant, Corporate Accountant, Insurance and Accounting Technician or Benefits & Control Officer must conduct all dealing transactions, or staff authorised by the S151 Officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.
- 4 The S151 Officer and the Director – Support Services will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- 5 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the S151 Officer to be satisfied, by reference to the Monitoring Officer (Director – Support Services), the Organisation’s legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Organisation’s Financial Regulations
- 6 It is also the responsibility of the S151 Officer to ensure that the Organisation complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

Principal Accountant

The responsibilities of this post will be:-

- a) Adherence to agreed policies and practices on a day-to-day basis
- b) Supervising treasury management staff
- c) Monitoring performance on a day-to-day basis
- d) Monitoring responsibility of the Treasury Management Budget
- e) Managing long and short term cashflow
- f) Overseeing and authorising execution of transactions
- g) Submitting management information reports to the responsible officer

Chief Executive Officer

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the S151 Officer reports regularly to the responsible committee/the Council on treasury policy, activity and performance.

Monitoring Officer

The responsibilities of this post will be: -

- a) Ensuring compliance by the S151 Officer with the treasury management policy statement and treasury management practices and that they comply with the law
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice
- c) Giving advice to the S151 Officer when advice is sought.

Internal Audit (SWAP)

The responsibilities of Internal Audit will be: -

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

Absence cover arrangements

- In the absence of the S151 Officer, the Finance Manager shall take on board the responsibilities and duties of the S151 Officer.
- Under the supervision of the Principal Accountant, the general day to day activities shall be undertaken by the Insurance and Accounting Technician. However this may be from time to time passed onto the Benefits & Control Officer or the Management Accountant
- In the absence of the Principal Accountant her responsibilities and duties will be undertaken by the Finance Manager or the S151 Officer (or officers authorised by her to act as temporary cover) supported by the rest of the Treasury Management team.

Dealing limits

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

List of approved brokers

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

Appendix 1

Policy on brokers' services

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

Policy on taping of conversations

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

Direct dealing practices

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

Settlement transmission procedures

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

Documentation requirements

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

Arrangements concerning the management of third-party funds.

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

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

TMP 6: Reporting Requirements and Management information arrangements

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

As a minimum, Full Council will receive:

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

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

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

Schedule:

Frequency of executive reporting requirements

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

Content of Reporting: 1. Prudential Indicators

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

Appendix 1

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

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

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

Content of Reporting: 3. Annual Treasury Report

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

Appendix 1

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

Content of Reporting: 4. Mid-Year Treasury Report

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

Content and frequency of management information reports

- Management information reports will be prepared each quarter by the Principal Accountant and will be presented to the S151 Officer.
- These reports will contain the following information: -
 - Information on investment in Bonds, Certificates of Deposits and Treasury Bills.
 - Details of in-house investments, including interest to date, benchmark rate and rate achieved, and forecast of interest for the remainder of the year.
 - Details of fees payable.
 - Forecast of surplus/deficit for the financial year against budget.
 - Narrative highlighting any areas of concern or areas of note.

TMP 7: Budgeting, accounting and audit arrangements

Principle: The Responsible Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum

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

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

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

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

Schedule:

Statutory/regulatory requirements

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

Proper accounting practice

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

Financial Statements

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

Treasury-related information requirements of external auditors

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

Appendix 1

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

Internal Audit

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

Compliance with CIPFA Treasury Management and Prudential Codes

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

TMP 8: Cash and cash flow management

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

Schedule:

Appendix 1

Arrangements for preparing /submitting cash flow statements

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

Content and frequency of cash flow projections

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

Monitoring, frequency of cash flow updates

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

Bank statements procedures

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

Payment scheduling

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

Monitoring debtor/ creditor levels

- Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report to the service managers which includes an analysis of debt by age.

Appendix 1

- The level of Creditor invoices being processed is monitored on a monthly basis by the Exchequer Services Team.

Banking of funds

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

Listing of sources of information

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

Practices concerning prepayments to obtain benefits

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

TMP 9: Money Laundering

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

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

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

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

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

CIPFA believes that public sector organisations should "embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money

Appendix 1

laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

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

Schedule:

Anti money laundering policy

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

Treasury documentation

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

Nomination of Responsible Officer

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

Procedures for establishing the Identity of Lenders and Borrowers

- In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.
- The Council will not accept loans from individuals.

Appendix 1

- In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.
- The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via Bank of England/Prudential Regulation Authority's website.
- All receipts/disbursements of funds will be undertaken by CHAPS settlement.
- Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed.
- All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.
- If the Authority takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals.
- When receiving request for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details.

TMP 10: Training and qualifications

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

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

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

Schedule:

Qualifications/ experience for treasury staff

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

Details of approved training courses

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

Appendix 1

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

Records of training received by treasury staff

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

TMP 11: Use of external service providers

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

Schedule:

Banking services

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

Money-broking services

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

Cash/fund management services

- None

Appendix 1

Consultants'/advisers' services

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

Bribery Act

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

TMP 12: Corporate governance

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

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

Schedule:

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

Council's website

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

Procedures for consultation with stakeholders

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

Agenda Item 8

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

Director *Ian Clarke, Support Services*
Lead Officers: *Paul Fitzgerald, S151 Officer*
Karen Gubbins, Principal Accountant
Contact Details: Paul.fitzgerald@southsomerset.gov.uk or (01935) 462226
Karen.gubbins@southsomerset.gov.uk or (01935) 462456

Purpose of the Report

1. To review the Treasury Management Strategy Statement

Recommendation(s)

2. The Audit Committee are asked to carry out the Mid-year review of the Treasury Management Strategy and recommend it to Council. (strategy attached with 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	£6 m	£6 m	£3 m	£3 m

	3 years	4 years	10 years	4 years	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>				
• Finance Leases	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	8,612	1,786	-312

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
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

Figures in brackets denote financing through receipts or reserves.

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

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

	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	0.30	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	0.70	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	-0.30	-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.

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

Fraud and Data Team Update

Executive Portfolio Holder: Peter Seib, Finance and Legal Services
Director: Ian Clarke - Support Services Director
Service Manager: Lynda Creek - Fraud and Data Manager – Fraud and Data Service
Lead Officer: Lynda Creek - Fraud and Data Manager – Fraud and Data Service
Zoe Rodgers – Fraud and Data Officer - Fraud and Data Service
Contact Details: lynda.creek@southsomerset.gov.uk or 01935 462204
zoe.rodgers@southsomerset.gov.uk or 01935 462512

Purpose of the Report

1. *The report is provided in response to a request from members for an update on the Summary of Significant Risks, provided by the South West Audit Partnership (SWAP), at the last Audit Committee Meeting. Although the Fraud and Data Team were only mentioned in some of the recommendations (all of which have been met) an update is provided on the others so as to provide a fuller picture for members;*

Public Interest

2. *The Summary of Significant Risks set out some key concerns that the SWAP auditor had identified and the recommendations they has made to deal with these risks. In essence, the audit was about whether, when a service (or part of it), is undertaken by someone other than SSDC staff, the legal requirements on how the personal data of customers is handled have been met e.g. would the contractor have sufficient security measures in place to protect the data from unlawful disclosure. loss, theft, unauthorised amendment or destruction etc. This issue is one which is often overlooked and an audit was commissioned by the Fraud and Data Team to assess the extent of the issue. The 'Summary of Significant Risks is the response to the matters identified in the audit.*

Recommendations

3. That the Audit Committee note the contents of the report

Background

4. Under the Data Protection Act 1998 (DPA) where a Data Processor (basically a third party such as a contractor) processes personal data about individuals on behalf of the Council certain legal requirements must be in place before any processing starts. These include a written contract containing certain mandatory conditions; checks on the technical and organisational security measures in place to protect the personal data (including staff training) and on-going monitoring of these measures to ensure the contractor complies with them and reports and breaches
5. It had been identified by the Fraud and Data Team that these requirements are very often not followed and where such breaches are identified it is much harder to rectify once the contract has started and personal data is being processed by the third party. An audit was commissioned to examine the extent of the issue and the recommendation in the Summary, broadly represent the findings of the audit

Report Detail

6. The Summary of Significant Risks is reproduced as an Appendix A for reference purposes and the response to each point is set out in a Appendix B as there was insufficient room to do so on the Summary form itself

Financial Implications

7. Breaches of the Data Protection Act 1998 can result in financial penalties of up to £0.5m as well as other sanctions. Under the General Data Protection Regulation, which comes into force next May 2018, the scope for such penalties rises to around £9m so this is a very important issue.

Council Plan Implications

8. There is no specific reference to data protection, privacy or information assets in the Council plan but it is a legal requirement and implicit in providing high quality services to the public.

Carbon Emissions and Climate Change Implications

9. N/A

Equality and Diversity Implications

10. *Although there may be equality issues around the selection of 3rd parties to undertake work for the Council, this audit was focussed on compliance with legal requirements so an EIA is not required.*

Privacy Impact Assessment

11. N/A

Background Papers

12. N/A
-

Appendix A

Page 84

Schedule of potential significant risks identified from Internal Audit work in the period Quarter 1 and Quarter 2

Ref	No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
35702		Data Protection	For individuals supporting the Authority, either by secondment or as private contractors paid through the Authority's payroll system, there was insufficient assurance that they have been fully trained with regard to data protection requirements. There is also some uncertainty as to their status, i.e. whether they are	If they are data processors rather than employees then the authority is in breach of the DPA. There is an increased risk of fines and reputational damage if these individuals are responsible for further data breaches.	I recommend that the HR Manager/Housing and Welfare Manager as appropriate should confirm the status of these officers (within the context of Data Protection legislation). If it is determined that individuals are employed on a secondment basis or are considered employees, confirmation should be sought that data protection induction and	HR Manager - The Interim Assistant Director for Transformation has been provided with a copy of the induction programme which includes guidance on Data Protection provided to all staff on induction. H&W Manager – Confirmation to be obtained regarding Homefinder Scheme Co-ordinator status and Data Protection induction.	31 st May 2017	

Page 85

			employees or contractors.		training has been carried out. If the individuals are considered private contractors, a written contract covering data protection issues should be used.			
35703	Data Protection		Where contracts are in place, these contracts often lacked sufficient detail re the data processing requirements and service managers should have sought input from the Fraud and Data Team if they were unclear what the DPA required.	The Authority may be unable to demonstrate it has taken reasonable steps to ensure the safety of personal data handled by Data Processors, resulting in larger fines and greater reputational damage.	I recommend that the Procurement and Risk Manager should issue a reminder to all Service Managers, stating that where contracts are to be extended beyond their natural term, advice is taken from the Procurement and Risk Manager on the legality of the extension (which may otherwise be unlawful), and written confirmation and	Agreed. Reminder to be issued.	31 st July 2017	

					authority for this extension should, as a point of good practice, be drawn up and held with the contract documentation in the Deed Room.			
35704	Data Protection	Where contracts are in place, these contracts often lacked sufficient detail re the data processing requirements and service managers should have sought input from the Fraud and Data Team if they were unclear what the DPA required.	The Authority may be unable to demonstrate it has taken reasonable steps to ensure the safety of personal data handled by Data Processors, resulting in larger fines and greater reputational damage.	I recommend that the Fraud and Data Manager issues a reminder to all Contract Managers that where contracts are renewed or it is agreed to roll them forward, that data protection issues are covered.	Happy to do this.	28 th April 2017		
35707	Data Protection	The central repository for contracts, maintained by the legal team,	Contracts may be hard to or impossible to locate as responsible officers	I recommend that the Procurement and Risk Manager should arrange for A copy of all	Agreed. Service areas to be made aware.	31 st July 2017		

			is often not used by service areas. We found that in the majority of instances service managers retain the only copy of contracts in their services' area.	change posts or leave. In the event of a major incident such as a fire/flood, paper based contracts may be permanently lost. The Authority may be unable to enforce contractual obligations including those relating to data protection or demonstrate that reasonable steps were taken to ensure the data protection requirements were met.	significant contracts, including low value contracts where there are significant risks in terms of DPA compliance, to be lodged with the legal team for retention within the central repository. The Procurement and Risk Manager should ensure that all service areas are aware of this requirement.			
35708		Data Protection	Where contracts are in place, these contracts often lacked sufficient detail re the data processing requirements and service managers should have	The Authority may be unable to demonstrate it has taken reasonable steps to ensure the safety of personal data handled by Data Processors, resulting in larger fines and greater reputational	The Fraud and Data Manager should issue a reminder to all service managers that they should liaise with her when drafting any contracts with Data Processors, to ensure that all	Happy to do this again (have already made aware in past).	31 st May 2017	

			sought input from the Fraud and Data Team if they were unclear what the DPA required.	damage.	relevant clauses are included.			
35709	Data Protection	A contract could not be located for the Out of Hours Service.	This is a breach of the Data Protection Act and if the ICO became aware it could result in heavier penalties being imposed on the Authority.	I recommend that the Civil Contingencies Manager should put a formal agreement in place between the Authority and the Deane Helpline Service, covering all necessary data protection responsibilities and obligations including liaison with the Fraud and Data Team as necessary.	Agreed.	31 st October 2017		

Summary of key points related to ‘Partial Assurance’ reviews

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
Data Protection	<p>A partial Assurance rating was given for the following reasons:</p> <ul style="list-style-type: none"> • Only a small number (3 out of 12) of contracts/agreements from our sample were catalogued and held in the central repository (consisting of a fire proof room) by the legal team. There is a risk that this could lead to the permanent loss of contract documents, which in turn could lead to difficulties in dispute resolution with regard to data protection issues with data processors. • Contracts were also not in place for all data processors which is a direct breach of the Data Protection Act. • Service areas conducting procurement exercises where data processors are to be used are not ensuring the requirements of the DPA are met. They are not, generally, seeking advice from the Fraud and Data Team at an early stage which reduces the level of expertise used when developing such arrangements and increases the risk of a breach. • Transmission of data between the Authority and data processors was not always carried out securely and although not generally of a sensitive 	As detailed in the above table.	As above	TBC

Page 90

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
	<p>nature, a breach could result in financial penalties being incurred.</p> <ul style="list-style-type: none"> The Authority utilise a number of individuals in roles that have access to personal data who are not direct employees but are also not treated as data processors and so have not been subject to a formal contract containing the mandatory conditions nor have they met the other DPA requirements e.g. concerning security measures. 			

Appendix B –Update from the Fraud and Data Team

Ref	Comments & Action Taken
35702	<ul style="list-style-type: none"> • The ICO recommends that as part of any proposed changes in policies, procedures or practices, a Privacy Impact Assessments (PIAs) is undertaken to assist the organisation, in a systematic way, to identify and minimise any privacy risks to individuals brought about by the change e.g. when deciding when to outsource a service or part of it. <p>When undertaking PIAs we have been identifying where DPs are being used and checking that the legal requirements are met (ideally before the data processing commences!). The suspected prevalence of non-compliance when using DPs led to the Fraud and Data Manager commissioning the SWAP DP audit on this issue. Since the commissioning of this Audit, the position of the Homefinder Scheme Co-Ordinator has changed and she is now employed by Taunton Deane Borough Council on behalf of Homefinder Somerset and therefore there are no compliance issues now.</p> <ul style="list-style-type: none"> • Incidentally, all new SSDC employees receive data protection (DP) training as part of their induction and there has been a comprehensive round of staff awareness sessions on DP. Normally, we do not supply training to Data Processors (DPs) i.e. 3rd parties who are undertaking work on the Council's behalf such as contractors. • As part of our preparations for the General Data Protection Regulation (GDPR) a review of SSDC's use of DPs is lawful by checking that <ol style="list-style-type: none"> a) there is a contracts/agreement in place that covers the necessary DP conditions to make the processing lawful and that will be adequate to meet the GDPR requirements too; b) the DP has provided sufficient information on their arrangements for keeping personal data secure to meet these requirements (including data protection training for its staff); • Where DPs are used, the manager managing the contract should be checking that adequate training on DP has taken place as part of the other checks – see above – so as to ensure the use of the DP is lawful. • As another part of our GDPR preparations we are undertaken a full review of the Council's Information Asset Register (IAR) including identifying where services have appointed DPs. This review allows identification of any gaps in our compliance with the DPA and GDPR. • As part of this review, it has been identified that some DPs who are supporting the work of the Transformation Team may not meet these requirements. The Fraud and Data Team raised the potential risk of non-compliance of the Data Protection Act 1998 (DPA) at an early stage and has met, recently, with Caron Starkey, the Strategic Lead for Transformation, to discuss the potential gaps in compliance and provide guidance re what data processing conditions should be included in the contracts and what security questions need to be answered so any issues can be addressed promptly.. We are awaiting a progress update from Caron's so as to be satisfied that the matter has been addressed • In the past year we have reviewed SSDC's Volunteer Agreement and Policy so that, where volunteers are processing personal data on behalf of SSDC, the Agreement contains the appropriate and adequate data processing conditions. We have also

	<p>identified the key volunteers who process personal data and provided them with a training leaflet and face to face training in some cases.</p>
35703	<ul style="list-style-type: none"> It is noted that the Recommended Action does not appear to fit with the weakness found and the risk identified and it may be that this has been wrongly transposed. Comments on the 'weakness' found is given above and elsewhere. No comment is given in relation to the recommended action.
35704	<ul style="list-style-type: none"> The Fraud & Data Manager issued a reminder to CPT and the Directors in May 2018 of the need to carry out a PIA; of the necessity to have a written contract containing the mandatory data processing conditions; of the need to ensure that the DP has sufficient security measures in place commensurate with the sensitivity of the data being processed; and that all these steps need to be taken prior to the appointment of the DP or processing of any personal data. Copies of the draft data processing conditions and the security questions to ask potential Data Processors were made available of the Data Protection and Information Security page on Insite. CPT signposted to this information in the email sent in May 2017. Following the email and the introduction of PIAs, and the DP Audit we have noticed an increased awareness of the DP requirements and increased contact being made with the Fraud & Data Team for support, advice and guidance on services' use of DP however this still represents one of the Council's biggest DP risk areas.
35707	<ul style="list-style-type: none"> Where the Fraud & Data Team are involved in the drafting or negotiating of the contract - for data processing or other purposes - purposes, then the lead officer for the service is told that the original contract (plus a copy) needs to be signed and passed to the Legal Services team to formalise the contract and then store it in the Deed Room. We are not, however, usually involved in the contract procurement so cannot comment on whether the recommendation has been met but it is thought unlikely. As the Procurement and Risk Manager is no longer in post, the Fraud & Data Team will send a reminder email to CPT about the need to store contracts and data processing agreements in the Deed Room. If there is compliance with this request we should be able to monitor the number of contracts which are received and stored in the Deed Room as well as identifying the use of DPs .
35708	<p>As above (Ref 35704)</p>
35709	<ul style="list-style-type: none"> We are not aware whether there is a contract/agreement in place with the Deane Helpline Service or whether this has been put in place since the commission of the Audit. Although the Civil Contingencies Manager has been tasked with this action it is not clear if it has been accomplished (it is thought not) and, as she is no longer available, we are following up on this matter and offer our assistance in sorting out the data processing requirements of the contract/agreement. We have contacted the Deane Helpline Service and asked them to provide details of their security arrangements but as of yet we have had no response despite a chase.

Agenda Item 10

Audit Committee Forward Plan

Director: Ian Clarke, Support Services
Lead Officer: Kelly Wheeler, Democratic Services Officer
Contact Details: Kely.wheeler@southsomerset.gov.uk or 01935 462038

Purpose of the Report

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

Recommendation

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

Audit Committee Forward Plan

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

Items marked in italics are not yet confirmed.

Background Papers: *None*

Audit Committee – Forward Plan

Committee Date	Item	Responsible Officer
23 Nov 17	<ul style="list-style-type: none"> Treasury Management – First and Second quarter monitoring report Internal Audit – second quarter update Annual Fraud Programme 	Karen Gubbins Laura Wicks (SWAP) Lynda Creek
25 Jan 18	<ul style="list-style-type: none"> Appointment of External Auditor 2018/19 Treasury Management Strategy Statement – Needs to go to Full Council 	Paul Fitzgerald Karen Gubbins
22 Feb 18	<ul style="list-style-type: none"> Internal Audit – Third quarter update Treasury Management – Third quarter monitoring report 	Laura Wicks (SWAP) Karen Gubbins
22 March 18	<ul style="list-style-type: none"> Internal Audit Plan – approve 17/18 plan Internal Audit – Charter 	Laura Wicks (SWAP) Laura Wicks (SWAP)