South Somerset District Council

Notice of Meeting

Audit Committee

Making a difference where it counts

Thursday 27th October 2011

10.00 a.m.

Committee Room 3/4,
Council Offices,
Brympton Way,
Yeovil,
Somerset BA20 2HT

The public and press are welcome to attend.

Disabled Access is available at this meeting venue.

If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Andrew Blackburn** on Yeovil (01935) 462462
email: andrew.blackburn@southsomerset.gov.uk

This Agenda was issued on Wednesday, 19th October 2011

Ian Clarke, Assistant Director (Legal & Corporate Services)

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

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Audit Committee Membership

Chairman	Derek Yeomans
Vice-Chairman	Ian Martin

John Calvert	Roy Mills
John Dyke	John Richardson
Marcus Fysh	Colin Winder
Tony Lock	

South Somerset District Council – Corporate Aims

Our key aims are: (all equal)

- Increase economic vitality and prosperity
- Enhance the environment, address and adapt to climate change
- Improve the housing, health and well-being of our citizens
- Ensure safe, sustainable and cohesive communities
- Deliver well managed, cost effective services valued by our customers

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.

Information for the Public

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

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

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;

2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;

3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;

4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"

5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;

6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;

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

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;

10. To review the Annual Governance Statement (AGS) and monitor associated action plans;

11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;

12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

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

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

15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Assistant Director – Finance and Corporate Services (S151 Officer), the Assistant Director – Legal and Corporate Services (the Monitoring Officer), or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;

17. The Audit Committee will request action through District Executive if any issue remains unresolved;

18. The Audit Committee will report to each full Council a summary of its activities.

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

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

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

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

Audit Committee

Thursday 27th October 2011

Agenda

Preliminary Items

1. To approve as a correct record the Minutes of the previous meeting held on 22nd September 2011

2. Apologies for Absence

3. Declarations of Interest

In accordance with the Council's Code of Conduct, which includes all the provisions of the statutory Model Code of Conduct, members are asked to declare any personal interests (and whether or not such an interest is "prejudicial") in any matter on the agenda for this meeting. A personal interest is defined in paragraph 8 of the Code and a prejudicial interest is defined in paragraph 10.

4. Public Question Time

Page Number

Items for Discussion

5. Audit Review - Section 106 Planning Obligations and Commuted Sums Update

Strategic Director:	*Rina Singh (Place & Performance)*
Assistant Director:	*Martin Woods (Economy)*
Service Manager:	*David Norris, Development Manager*
Lead Officer:	*Neil Waddleton, Section 106 Monitoring Officer*
Contact Details:	*neil.waddleton@southsomerset.gov.uk or 01935 462603*

Purpose of the Report

To provide a general update on the monitoring of financial and non-financial Planning Obligations.

Recommendations

That members note the report and endorse the actions taken in respect of the monitoring of Section 106 Planning Obligations.

Background

The Committee will remember that an audit review was undertaken at the invitation of management to review the process for managing S106 agreements and ensure that the processes in operation at South Somerset District Council are operating in a sound, robust and controlled manner.

Audit Committee was last updated on progress at their March 2011 meeting, where members indicated that they were content with the actions taken to date with regard to ensuring that an effective and robust system was in place for the monitoring of S106 Planning Obligations, but requested the S106 Monitoring Officer to submit a further update report to their October Committee.

Progress Made

Data Management

Formerly data relating to S106 agreements has been held within a number of different Services across the Council. Work has been carried out to cross-reference these with the data held in the main legal database. We are now in a position where we have captured in one-list, details of agreements to be entered into one system and it is anticipated that the inputting will be completed by April 2012.

Monitoring System

A monitoring system has been developed with the required functionality to enable the S106 Officer to effectively manage the legal agreements and the obligations within them. Management and monitoring reports have been designed and extrapolated from the system. The population of the database is well underway.

Agreement Pro-forma

In conjunction with the Principal Solicitor and Assistant Director (Legal and Corporate Services) a pro-forma has been produced for all Planning Officers to complete detailing requirements to be covered when drawing up the legal agreements. This allows consistency in capturing details and assists in the more efficient production of agreements.

Additional Information

In addition to the above the 106 Officer works closely with officers from other services, investigating agreements where triggers have been reached and actively sought and distributed contributions where appropriate.

Members have requested training workshops to gain a greater understanding of the way in which leisure and recreation contributions are sought through the planning process and it is understood that the Assistant Director, Health and Well-Being will be confirming dates for these in due course.

Successes

The 'profile' of Section 106 agreements has been raised significantly by the appointment of the Section 106 Officer and an increased awareness has resulted in significant demands upon his time. This is considered to be a positive outcome as it is important for members and the wider community to have a greater understanding of planning obligations and access to what is now a transparent process.

Progress of monitoring historical agreements is ongoing and an important element of this is the enforcement of planning obligations that have reached their relevant trigger points. This has resulted in the receipt of approximately £1.8 million since April 2010.

Since being in post the Section 106 Monitoring Officer has fostered good working relationships with internal officers, services and elected members with the mutual interest of monitoring and managing S106 agreements.

An Audit review of the 106 processes was carried out in early 2011 and the report was issued in May. The outcome of this review was very positive and it recognised the very significant improvements that had taken place over the last 12 months.

The Future

The Community Infrastructure Levy (CIL) is a new Levy that it is intended local authorities will charge on new developments in their area. The system will replace the existing Section 106 mechanisms, and the money raised can be used to support the funding of necessary infrastructure, some of which will be identified within the Infrastructure Delivery Plan (IDP). The CIL Regulations came into force on the 6th April 2011. From April 2014, the authority will only be able to secure contributions towards strategic leisure provisions if it has implemented a CIL charging scheme, according to the regulations.

This system has advantages in that the authority can apply a charging structure to almost all types of development, and it provides greater flexibility and freedom to prioritise what the money should be spent on. Monies raised are not directly linked to specific projects or locations, a specific downside to the current system, and it is for members to decide which projects should be given priority across the district as well as a percentage (not clarified as yet) to be spent locally.

Financial Implications

No direct financial implications from this report however members will be aware that ineffective management of planning obligations does have the potential to require the district council to refund contributions to developers.

Background Papers: *SWAP Final Report, May 2011.*

6. Annual Audit Letter

Strategic Director: *Mark Williams, Chief Executive*
Lead Officer: *As above*
Contact Details: *mwilliams@southsomerset.gov.uk or 01935 462101*

Purpose of the Report

This report introduces the annual audit letter for the 2010/11 financial year.

Recommendations

The Audit Committee is asked to note the contents of the Audit Letter as set out in the report attached at pages 5 -18 and to approve the action plan in appendix 2.

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 effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action has been taken"

"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"

"To review the Annual Governance Statement (AGS) and monitor associated action plans"

Each year the Audit Commission is required to make arrangements for the production of an audit letter for each local authority. This letter has changed in format for 2010/11. The letter outlines the following:

- Key Messages;
- Financial Challenges;
- A conclusion on the Statement of Accounts and annual governance statement;
- A conclusion on Value for Money;
- The fees charged by the Audit Commission compared to those budgeted.
- Action Plan

Key Messages

The letter overall gives an unqualified audit opinion on the Council's Financial Statement and Value for Money conclusion. The auditor is satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources. The letter will be considered by both District Executive and Scrutiny Committee. A copy of the letter will also be sent to all members of the Council.

Current and Future Challenges

The letter outlines the challenge ahead in setting a balanced budget given the reduction in government grant of £2.3 million over 2011/12 and 2012/13.

Statement of Accounts

An unqualified opinion was given on the Statement of Accounts and during the audit some minor amendments were made by agreement. The auditor did not identify any significant weaknesses in the Council's internal control arrangements but did make some recommendations to improve the control environment.

The Value for Money Conclusion

Two criteria were used to assess whether SSDC had adequate arrangements for Value for Money. These are:

- Financial resilience;
- Securing economy, efficiency and effectiveness.

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

Fees

The fees charged by the Audit Commission were in line with the budgeted fee structure given at £104,638. The authority continues to receive a discount on fees (£8,565) because of the low risk assessment received from the Audit Commission.

Action Plan

An Action Plan has been agreed for the key issues arising from the letter.

Financial Implications

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

Background Papers: *Annual Governance Report*

Annual Audit Letter

South Somerset District Council

Audit 2010/11

Contents

Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

I issued an unqualified opinion on the Council's financial statements on 22 September 2011. In my opinion, the Council's financial statements were free from material error or omission and comply with the relevant accounting standards.

Value for money

I issued an unqualified value for money conclusion for 2010/11. This means that I am satisfied that there are proper arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

Financial challenges

The Council is facing significant financial challenges, similar to the rest of the public sector. In December 2010 the Secretary of State announced that there would be reductions in government grants for local government. The Government reduced South Somerset's revenue grants by £1.4 million (15.1 per cent) for 2011/12 and a further £0.9 million (11.9 per cent) in 2012/13.

The Council's general fund balance stood at £3.9 million at 31 March 2011. The Council had earmarked/committed £0.8 million of this balance in 2011/12 (carry forwards from previous year and financing of one off projects) but the remaining balance of £3.1 million is well above the minimum level determined by the Assistant Director (Finance and Corporate Services) of £2.19 million, partly because of an underspend of £0.8 million in 2010/11. Already in 2011/12 the Council is reporting budgetary pressures and a forecast overspend of £586K for the year. It is estimating and that general fund balances will reduce to £2.5 million by 31 March 2012.

Although the Council has been successful in achieving significant efficiency savings in recent years, particularly through the LEAN project, it has identified that it needs to achieve budget savings of £2.2 million in 2012/13, even after achieving efficiency savings of £0.25 million.

Councillors are considering various options to reduce the Council's revenue expenditure to achieve a balanced budget for 2012/13 and beyond. The Council will need to take difficult decisions to close the budget gap and my audit for 2011/12 will review the Council's progress to achieve the required savings.

Recommendation	
R1	Ensure that future budgets are balanced by closing the gap between expenditure and projected income.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion on the Council’s financial statements on 22 September 2011.

The Council has performed well in the adoption of International Financial Standards and made a number of minor amendments to the financial statements as a result of my audit. There were no material changes to the comprehensive income and expenditure statement or to the balance sheet.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements but I did make recommendations to improve the control environment in my report about financial controls to the Audit Committee in June, (debt recovery and single persons’ discounts) and in my Annual Governance Report in September (processing of council tax amendments from the valuation office). The Council has implemented an action plan which has further strengthened key financial controls.

Whole of Government Accounts

External auditors of local authorities are required to provide a statement of assurance for the Council and Comptroller and Auditor General regarding the accuracy of financial submissions to the Department of Communities and Local Government for preparation of the accounts for the whole public sector. I have to certify that South Somerset District Council’s submission is consistent with its audited accounts and that it has been properly prepared in accordance with HM Treasury Guidance. This work includes a review of the Council’s disclosure of ‘counter party’ transactions (ie income and expenditure, debtors and creditors with other public bodies, whose accounts are also included in the national accounts). For 2010/11, the certification and reporting process was more detailed than in previous years and the Council made a number of amendments to the return. My team spent more time on this certification than I had planned. For 2011/12 the Council needs to improve its arrangements for ensuring the accuracy of its submission.

Recommendation
R2 Strengthen the arrangements to ensure the accuracy of the whole of government accounts submission.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Council's general fund balances of £3.9 million at 31 March 2011 are well above its minimum target balances and higher than the forecast at the beginning of 2010/11 when the budget was set. However, the Council faces financial challenges with significant reductions in Government revenue grants in 2011/12 and 2012/13. There is still a significant gap between future revenue streams and current services. The Council has begun a fundamental review of what it can afford so that Members take the important decisions to underpin the budget setting for 2012/13 and future years.

Criterion	Key messages
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	In 2010/11 the Council achieved significant savings, which have increased its balances. The Council can demonstrate that services which have been subject to a LEAN review are more efficient and operate at lower costs than the district average. However, members will need to prioritise the services that the Council can afford in order that its future expenditure can be met from its reduced income.

National Fraud Initiative (NFI)

The National Fraud Initiative is a data matching exercise to identify potential frauds across the public sector. In 2010/11 South Somerset had 2,135 data matches in total, of which 10 per cent or 221 were ‘recommended’ for investigation as a higher priority. Even with the higher priority cases, only a small minority are likely to lead to a fraud being identified. The Council has made reasonable progress in reviewing the data matches. To date the Council has identified one fraud of £4682 (where someone working for another council had not declared income on the housing benefit claim) and there are other matches with queries outstanding, where there are notes on the file requesting further information from other organisations. The Council should complete this work so that it can close the higher priority cases.

The Council has already undertaken its own data matching exercise on single person’s discounts for council tax. It has made good progress and it needs to conclude on the housing benefit cases. The Revenues and Benefits Manager intends to report the results and savings to the Audit Committee.

Recommendations	
R3	Complete the investigations into the higher priority NFI data matches.
R4	Conclude the Council’s data matching exercise on single person’s discounts for council tax and report the results to the Audit Committee.

Closing remarks

I have agreed this letter with the Assistant Director (Finance and Corporate Services). I will present this letter at the Audit Committee on 27 October 2011 and will provide copies to all committee members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Plan	March 2011
Audit of Financial Controls	June 2011
Annual Governance Report	September 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Brian Bethell
District Auditor

October 2011

Appendix 1 – Fees

	Scale	Actual	Variance
Audit Fee	£122,250	£113,685	-£8,565 (communicated in audit plan in March 2011)
IFRS rebate from Audit Commission		-£7,213	-£7,213
Further rebate from Audit Commission of 1.5% (Dec 2010)		-£1,834	-£1,834
Non-audit work	NIL	NIL	NIL
Total	**£122,250**	**£104,638**	**-£17,612**
National Fraud Initiative	£1,100	£1,100	

Appendix 2 – Action plan

Recommendations	
Recommendation 1	
Ensure that future budgets are balanced by closing the gap between expenditure and projected income.	
Responsibility	Chief Executive
Priority	High
Date	March 2012
Comments	This process in ongoing and the budget gap will be addressed in setting the budget for 2012/13.
Recommendation 2	
Strengthen the arrangements to ensure the accuracy of the whole of government accounts submission.	
Responsibility	Finance Manager
Priority	Medium
Date	September 2012
Comments	Arrangements are already in place for the following year.

Recommendation 3	
Complete the investigations into the higher priority NFI data matches.	
Responsibility	Assistant Director (Finance and Corporate Services)
Priority	High
Date	December 2011
Comments	Agreed

Recommendation 4	
Conclude the Council's data matching exercise on single person's discounts for council tax and report the results to the Audit Committee.	
Responsibility	Revenues and Benefits Manager
Priority	High
Date	December 2011
Comments	Agreed

Appendix 3 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

audit commission

www.audit-commission.gov.uk **October 2011**

Audit Committee – 27th October 2011

7. Treasury Management Performance to September 2011 and Mid-year Review of the Treasury Management Strategy

Strategic Director: *Mark Williams, Chief Executive*
Assistant Director: *Donna Parham (Finance and Corporate Services)*
Service Manager: *Amanda Card, Finance Manager*
Lead Officer: *Karen Gubbins, Principal Accountant - Exchequer*
Contact Details: *karen.gubbins@southsomerset.gov.uk or 01935 462456*

Purpose of the Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the six months ended 30th September 2011. To carry out the mid-year review of the Treasury Management Strategy.

Recommendations

2. The Audit Committee are asked to:

   - Note the Treasury Management Activity for the six-month period ended 30th September 2011.
   - Note the position of the individual prudential indicators for the six-month period ended 30th September 2011.
   - Carry out the mid-year review of the Treasury Management Strategy and recommend it to Council. (The Strategy is attached at pages 31 - 59 with amendments highlighted).

The Investment Strategy for 2011/12

3. The Treasury Management Strategy for 2011/12 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

4. The Code of Practice recommends that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

5. The Council's strategy for investments is based upon minimising risk and safeguarding the capital sum. There is a reliance on the investment income receivable in maintaining a balanced revenue budget and therefore the long-term strategy is to maintain stability by having a significant amount invested in fixed rate of return investment instruments.

6. Our Minimum rating is A+ long term (or equivalent). Although Natwest does not meet the minimum credit criteria of A+ (or equivalent) long term, it is the Council's bank and will still be used for operational purposes. Balances of smaller amounts (less than £300,000) will be kept within our Natwest Account to ensure operational and contingency purposes are maintained.

7. Until early September, where cash-flow permitted the Council followed a cautious investment strategy of a rolling programme of 6 month deposits with named counterparties for a proportion of its investments.

8. Following the growing problems facing peripheral Europe, the Council responded to the growing stress by scaling back maturities for new investments on the advice of the Council's treasury advisors. Limits for European banks have been temporarily reduced to 1 month and French institutions have been suspended for new investments. Limits for UK banks, Nationwide Building Society and Australian, Canadian and US banks have now been temporarily reduced to 6 months except for Santander UK plc which is now restricted to 3 months.

   On 28th September Clydesdale Bank was suspended from the lending list following the bank's downgrade to A2 by Moody's, which falls below the Council's minimum criteria of A+ or equivalent.

   During the first quarter Moody's placed the ratings of a number of UK institutions on review for possible downgrade. This was not based on strength or viability of banks but a review of government support should they need it. This was to align their ratings with evolving systemic support post credit crisis. The review is now completed and has lead to downgrades of some counterparties on the Council's lending list (Nationwide Building Society and Royal Bank of Scotland). No changes have been made from the other rating agencies; Fitch and Standard & Poors.

9. The sum invested in longer dated securities at fixed rates of interest at the end of September represented 28% of the total portfolio. The sum invested in longer dated securities at variable rates of interest at the end of September represented 13% of the total portfolio. Investments made in longer dated securities comprise EuroSterling bonds and Corporate bonds; these investments have all been made after advice from our treasury advisors, Arlingclose.

10. The Treasury Management Strategy Statement and Annual Investment Policy were both approved by Council on 17th March 2011. The strategy identified that the overall investment portfolio should, subject to current economic conditions, include investments in the following ranges:-

	%
Fund Managers and pooled managed funds.	0% - 25%
Term deposits (up to 2 years).	0% - 75%
3 – 5 year cash deposits.	0% - 25%
1 – 5 year callable deposits.	0% - 15%
1 – 5 year EuroSterling/Corporate Bonds.	10% - 75%

11. The table below compares the investment portfolio at 30th September 2011 to the investment strategy:-

	£'m	%	Strategic aim
Pooled Managed Funds and business reserve accounts	1.54	3.42	0% - 25%
Term deposits (up to 2 year)	25.00	55.58	0% - 75%
3 – 5 year cash deposits.	0	0	0% - 25%
1 – 5 year callable deposits.	0	0	0% - 15%
1 – 5 year EuroSterling/Corporate Bonds.	18.44	41.00	10% - 75%
	44.98	**100**	

The above table shows that the current portfolio broadly reflects the strategy.

Interest Rates 2010/11

12. Base rate began the financial year and remains at 0.5%.

13. Our advisors are forecasting that rates have a likelihood of increasing by 0.25% in December 2012.

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
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
Central case	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.25	1.50	1.75	2.00	2.25
Downside risk						-0.25	-0.25	-0.50	-0.75	-1.00	-1.25	-1.50	-1.75

Investment Portfolio

14. The total amount of investments has increased since 1st April as the capital receipt from Right to Buy income (£323k) and £2.5m from the Birchfield Easement has been received, but not yet spent, and we are now six months into the ten month council tax collection cycle.

15. The table below shows the Council's overall investments as at 30th September 2011:

	Value of Investments at 01.04.11 £	Value of Investments at 30.09.11 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
Euro Sterling Bonds	7,537,881	7,339,484	Fixed
Corporate Bonds	5,194,979	5,101,845	Fixed
Euro Sterling Bonds	6,000,000	6,000,000	Variable
Total	**18,732,860**	**18,441,329**	
Internal Investments			
Short Term Deposits	16,000,000	25,000,000	Variable
Money Market Funds & Business Reserve Accounts	4,000,000	1,540,000	Variable
Total	**20,000,000**	**26,540,000**	
TOTAL INVESTMENTS	**38,732,860**	**44,981,329**	

Returns for 2011/12

16. The returns to 30th September 2011 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
Euro Sterling Bonds (Fixed)	194	
Corporate Bonds	117	
Euro Sterling Bonds (Variable)	25	
Total	**336**	**3.61%**
Internal Investments		
Short Term Deposits	156	
Money Market Funds & Business Reserve Accounts	27	
Total	**183**	**1.26%**
Other Interest		
Miscellaneous Loans	49	
Total	**49**	
TOTAL INCOME TO 30TH SEPTEMBER 2011	**568**	**2.17%**
PROFILED BUDGETED INCOME	**400**	
FORECAST SURPLUS FOR YEAR END	**76**	
BENCHMARK RATE OF RETURN		**0.45%**

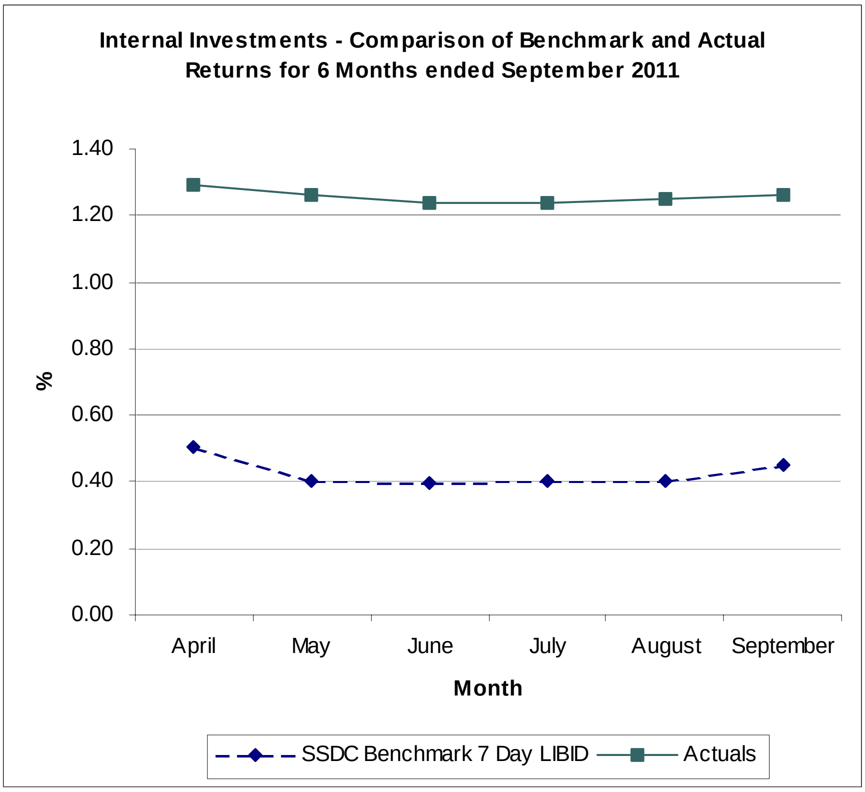
17. The table above shows investment income for the first six months of the year compared to the profiled budget. The figures show a surplus over budget of £168,000. We currently estimate that the position at the end of the financial year will be an overall favourable variance in the order of £76,000.

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

19. The original Treasury Management budget of £799,620 was derived by forecasting an average rate of return of 1.78%. The actual interest rate received for quarter 1 was 2.17%.

Internal Investments (Short Term)

20. The graph below shows the In-house performance in respect of short-term investments as at 30th September 2011.



21. The current benchmark set for the in house team is the 7-day LIBID (London Interbank Bid) rate which is the rate used for quick benchmarking by the CIPFA benchmarking club.

22. The above graph shows that the internal investments returns are consistently outperforming the benchmark by around 80 basis points. This is due to a large amount of our investment portfolio being in longer dated securities such as Eurobonds, Corporate Bonds and also in maintaining a rolling programme of 6 month term deposits where cash flow permits.

Borrowing

23. An actual overall borrowing requirement (CFR) of £9.4 million was identified at the beginning of 2010/11. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 30th September 2011 the Council had no external borrowing.

Breakdown of investments as at 30th September 2011

Date Lent	Counterparty	Amount	Rate	Maturity Date
10-Jan-11	Bank of Scotland	2,000,000	1.95%	10-Jan-12
14-Oct-10	Bank of Scotland	2,000,000	1.85%	14-Oct-11
1-Mar-11	Bank of Scotland	1,000,000	2.05%	1-Mar-12
14-Apr-11	Nationwide Building Society	1,000,000	1.44%	13-Apr-12
7-Jun-11	Nationwide Building Society	1,000,000	1.41%	6-Jun-12
5-Aug-11	Nationwide Building Society	1,000,000	1.03%	20-Feb-12
25-Aug-11	Barclays Bank Plc	1,000,000	1.09%	27-Feb-12
4-Nov-10	Barclays Bank Plc	1,000,000	1.45%	4-Nov-11
17-Nov-10	Barclays Bank Plc	1,000,000	1.47%	17-Nov-11
23-Mar-11	Bank of Scotland	1,000,000	2.05%	23-Mar-12
31-Mar-11	Barclays Bank Plc	2,000,000	1.58%	30-Mar-12
12-Jul-11	Nordea Bank	2,000,000	1.40%	12-Jul-12
15-Jul-11	Nordea Bank	2,000,000	1.38%	13-Jul-12
15-Jul-11	Nordea Bank	2,000,000	1.01%	15-Feb-12
2-Sep-11	Royal Bank of Scotland	1,000,000	1.10%	2-Mar-12
7-Sep-11	Barclays Bank Plc	1,000,000	1.13%	12-Mar-12
13-Sep-11	Santander UK Plc	1,000,000	0.97%	13-Oct-11
21-Sep-11	Nationwide Building Society	1,000,000	1.04%	17-Feb-12
26-Sep-11	Nationwide Building Society	1,000,000	1.11%	16-Mar-12
	Prime Rate Money Market Fund*	1,540,000	0.83%	
	Eurobond Fixed Rate	2,080,426	5.72%	6-Jun-12
	Eurobond Fixed Rate	3,094,290	3.93%	7-Dec-11
	Eurobond Fixed Rate	1,051,109	5.41%	14-Jan-13
	Eurobond Fixed Rate	1,113,659	3.11%	15-Apr-14
	Corporate Bond Fixed Rate	5,101,845	2.74%	4-Nov-11
	Eurobond Floating Rate Note	6,000,000	SONIA+ 0.35%	18-Mar-14
		44,981,329		

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

Prudential Indicators – Quarter 2 monitoring

Background:

24. In March 2011, Full Council approved the indicators for 2011/12, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allowed local authorities to determine their own borrowing limits provided they are affordable and that every local authority complies with the code.

Prudential Indicator 1 - Capital Expenditure:

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

	2011/12 Original Estimate £'000	Expected Outturn £'000	2011/12 Variance £'000	Reason for Variance
Approved capital schemes	5,341	8,096	2,755	Increase arises from net slippage from previous year to current year
Capital Investments	0	(5,000)	(5,000)	Corporate Bond maturing in November 2011
Reserves	1,168	3,752	2,584	Slippage from 2010/11 accounts for the majority of the variance
Total Expenditure	**6,509**	**6,848**	**339**	

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

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

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

Portfolio	2011/12 Original Estimate £'000	Expected Outturn £'000	2011/12 Variance £'000	Reason for Variance
Financing Costs*	(673)	(716)	(43)	
Net Revenue Stream	17,345	17,684	339	Carry forwards approved in June have now been incorporated within the overall budget
%*	**(3.9)**	**(4.1)**		

*figures in brackets denote income through receipts and reserves

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

Prudential Indicator 3 - Capital Financing Requirement:

29. 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:

	2011/12 Revised Estimate £'000	Expected Outturn £'000	2011/12 Variance £'000	Reason for Variance
Opening CFR	9,352	9,415	63	
Capital Expenditure	5,341	8,096	2,755	See explanations for indicator 1 above
Capital Receipts*	(3,664)	(5,121)	(1,457)	Slippage of schemes approved in previous years
Grants/Contributions*	(1,677)	(2,975)	(1,298)	Reprofiling of income expected in future years
Minimum Revenue Position (MRP)	(126)	(159)	33	Additional finance leases
Additional Finance Leases		131	131	
Closing CFR	**9,226**	**9,387**	**227**	

*Figures in brackets denote income through receipts or reserves.

Prudential Indicator 4 – Net external Borrowing compared to the medium term Capital Financing Requirement:

30. 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 net external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period.

	2011/12 Original Estimate £'000	2011/12 Qtr 1 Actual £'000	2011/12 Variance £'000	Reason for Variance
Net Borrowing	(46,434)	(43,447)	2,987	
CFR	9,226	9,256	30	

31. The figures above in brackets described as net borrowing actually represent net investments. Our net borrowing is forecast to remain as net investment for the foreseeable future and therefore will not at any time be in excess of the capital financing requirement.

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

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

	2011/12 % Limit	2011/12 Qtr 1 Actual %	2011/12 Variance %	Reason for Variance
Fixed	80	27.66	52.34	Within limit
Variable	100	72.34	27.66	Within limit

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

	2011/12 % Limit	2011/12 Qtr 1 Actual %	2011/12 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

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

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

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

Upper Limit for total principal sums invested over 364 days	2011/12 Maximum Limit £'000	2011/12 Qtr 1 Actual £'000	2011/12 Expected Outturn £'000	Reason for Variance
Between 1-2 years	25,000	1,051	6,000	Within limit
Between 2-3 years	20,000	7,114	1,114	Within limit
Between 3-4 years	10,000	0	0	Within limit
Between 4-5 years	10,000	0	0	Within limit
Over 5 years	5,000	0	0	Within limit

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

Prudential Indicator 7 - Actual External Debt:

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

Actual External Debt as at 31/03/2011	**£'000**
Borrowing	0
Other Long-term Liabilities (Finance Leases)	301
Total	**301**

Prudential Indicator 8 - Authorised Limit for External Debt:

38. This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A ceiling of £12 million was set for each year.

	2011/12 Estimate £'000	**2011/12 Qtr 1 Actual £'000**	**2011/12 Variance £'000**	**Reason for Variance**
Borrowing	11,600	0	(11,600)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	400	273	(127)	Within limit
Total	**12,000**	**273**	**(11,727)**	

Prudential Indicator 9 – Operational Boundary for External Debt:

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

	2011/12 Estimate £'000	**2011/12 Qtr 1 Actual £'000**	**2011/12 Variance £'000**	**Reason for Variance**
Borrowing	9,700	0	(9,700)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	300	273	(27)	Within limit
Total	**10,000**	**273**	**(9,727)**	

Prudential Indicator 10 - Maturity Structure of Fixed Rate borrowing:

40. This indicator is relevant when we borrow, then we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

Maturity structure of fixed rate borrowing	2011/12 Upper Limit %	2011/12 Lower Limit %	2011/12 Qtr 1 Actual %	2011/12 Variance %	Reason for Variance
Under 12 months	100	0	0	Not applicable	
12 months and within 24 months	100	0	0	Not applicable	
24 months and within 5 years	100	0	0	Not applicable	
5 years and within 10 years	100	0	0	Not applicable	
10 years and within 20 years	100	0	0	Not applicable	
20 years and within 30 years	100	0	0	Not applicable	
30 years and within 40 years	100	0	0	Not applicable	
40 years and within 50 years	100	0	0	Not applicable	
50 years and above	100	0	0	Not applicable	

Prudential Indicator 11 - Incremental Impact of Capital Investment Decisions:

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

Incremental Impact of Capital Investment Decisions	2011/12 Original Estimate £
Decrease in Band D Council Tax	0.20

Prudential Indicator 12 - Adoption of the CIPFA Treasury Management Code:

42. 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 18th April 2002.

Conclusion

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

Background Papers: *Prudential Indicators Working Paper, Treasury Management Strategy Statement*

Appendix 1

Treasury Management Strategy Statement and Investment Strategy 2011/12

Contents

Appendices

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to determine the Treasury Management Strategy Statement (TMSS). This statement also incorporates the Investment Strategy. Together, these cover the financing and investment strategy for the forthcoming financial year.

1.2 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."

1.3 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. Balance Sheet and Treasury Position

2.1 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:

	31/03/11 Actual £'000	**31/03/12 Estimate £'000**	**31/03/13 Estimate £'000**	**31/03/14 Estimate £'000**
CFR	9,414	9,226	9,164	9,134
Usable Capital Receipts	(31,574)	(30,434)	(28,266)	(27,205)
Balances & Reserves	(8,463)	(5,667)	(5,672)	(5,700)
Net Borrowing Requirement	**(30,623)**	**(26,875)**	**(24,774)**	**(23,771)**

2.2 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.

2.3 As the CFR represents the level of borrowing (currently nil) for capital purposes 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.

2.4 It is permissible under the Prudential Code to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of the invested sums until the related capital expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements.

2.5 The estimate for interest payments in 2011/12 is nil and for interest receipts is £799,620.

3. Outlook for Interest Rates

3.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix C. The Council will reappraise its strategy from time to time and, if needs be, realign it in line with market conditions and expectations for future interest rates.

4. Borrowing Requirement and Strategy

4.1 The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year.

4.2 Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce an increased requirement to charge MRP in the Revenue Account.

4.3 Physical external borrowing may be greater or less than the CFR, but in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

4.4 The cumulative estimate of the maximum long-term borrowing requirement is estimated by comparing the projected CFR with the profile of the current portfolio of external debt and long term liabilities over the same financial horizon, as follows:

	31/03/11 Actual £'000	31/03/12 Estimate £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000
Capital Financing Requirement (CFR)	9,414	9,288	9,226	9,196
Less: Existing Profile of Borrowing and Other Long Term Liabilities	301	113	50	21
Cumulative Maximum External Borrowing Requirement	9,113	9,113	9,113	9,113
Balances & Reserves	0	0	0	0
Cumulative Net Borrowing Requirement (Call on capital receipts)	**9,113**	**9,113**	**9,113**	**9,113**

4.5 The Council's strategy is to maintain maximum control over any potential long term borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimize borrowing costs over the medium to longer term (should SSDC decide to borrow). A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.

4.6 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:

- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Local authority stock issues
- Local authority bills
- Structured finance

The outlook for borrowing rates:

4.7 Following the CSR announcement which increased the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing, the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

- Variable rate borrowing
- Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
- Long-term Maturity loans, where affordable.

4.8 Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintaining stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium- and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The use of internal resources in lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure.

4.9 The Council will undertake a financial options appraisal before any borrowing is made.

4.10 For any borrowing that may be undertaken in advance of need the Council will adopt the same rigorous policies and approach to the protection of capital as it does for the investment of its surplus balances.

5. Investment Policy and Strategy

Background

5.1 Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

Investment Policy

5.2 To comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

The CLG's Guidance on investments reiterates security and liquidity as the primary objectives of a prudent investment policy. The speculative procedure of borrowing purely in order to invest is unlawful.

5.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Appendix D.

5.4 Changes to the investment strategy for 2011/12 include:

- AAA-rated Variable Net Asset Value (VNAV) Money Market Funds
- Treasury Bills
- Local Authority Bills
- Term deposits in Sweden
- Maximum duration for new deposits 2 years

5.5 The Council's current level of investments is shown at Appendix A.

Investment Strategy

5.6 The UK Bank Rate has been maintained at 0.5% since March 2009, and it is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels which will have a significant impact on investment income. The Medium Term Financial Plan has been updated to reflect the impact of long term low interest rates to ensure that the security of the sums invested remains paramount.

5.7 The Assistant Director (Finance and Corporate Services), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the Audit Committee on a quarterly basis.

Investments managed in-house:

5.8 The Council's shorter term cash flow investments are made with reference to the outlook for the UK Bank Rate and money market rates.

5.9 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure)

5.10 The table below shows the strategic approach to treasury management and the overall portfolio should include investments within the following ranges dependant on overall economic conditions:

	%
Fund Managers and pooled managed funds	0% - 25%
Term Deposits (up to 2 years)	0% - 75%
3 – 5 year cash deposits	0% - 25%
1 – 5 year callable deposits	0% - 15%
1 – 10 year Eurosterling/Corporate Bonds	0% - 75%

5.11 This approach aims to promote a diverse mix of investments with funds placed aiming to give some measure of certainty and stability. The main aim however will be to minimise risk.

5.13 The Council selects countries and institutions within them, for the counterparty list after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
- Credit Default Swaps (where quoted)
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms / potential support from a well-resourced parent institution
- Share Price (where quoted)
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment

The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

5.14 To protect against a prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix D). The longer-term investments will be likely to include:

- **Supranational bonds (bonds issued by multilateral development banks):** Even at lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

- **Term Deposits with counterparties rated at least A+ (or equivalent)**

Investments managed externally

5.15 Currently the Council has no externally managed funds. However the following may be used once fully evaluated and with advice from Arlingclose;

5.16 Funds managed on a segregated basis: the Council will continue to evaluate funds managed externally. Fund Managers may be able to add value through the use of investments contained in Appendix D

5.17 Collective Investment Schemes (Pooled Funds): The Council will continue to evaluate the use of Pooled Funds and determine the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

6. Balanced Budget Requirement

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

7. 2011/12 MRP Statement

Background:

7.1 For many years local authorities were required by Statute and associated Statutory Instruments to charge to the Revenue Account an annual provision for the repayment of debt associated with expenditure incurred on capital assets. This charge to the Revenue Account was referred to as the Minimum Revenue Provision (MRP). In practice MRP represents the financing of capital expenditure from the Revenue Account that was initially funded by borrowing.

7.2 In February 2008 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Statutory Instrument 2008/414] were approved by Parliament and became effective on 31 March 2008. These regulations replaced the formula based method for calculating MRP which existed under previous regulations under the Local Government Act 2003. The new regulations required a local authority to determine each financial year an amount of MRP which it considers to be prudent. Linked to this new regulation, the Department of Communities and Local Government (CLG) produced Statutory Guidance which local authorities are required to follow, setting out what constitutes a prudent provision.

7.3 The CLG Guidance recommends that before the start of the financial year, a statement of MRP policy for the forthcoming financial year is approved by the Full Council.

7.4 The broad aim of the Policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits. In the case of borrowing supported by Revenue Support Grant, the aim is that MRP is charged over a period reasonably commensurate with the period implicit in the determination of that grant. Where a local authority's overall CFR is £nil or a negative amount there is no requirement to charge MRP.

7.5 The move to International Financial Reporting Standards (IFRS) has meant that many Operating Leases have had to be reclassified as Finance Leases and been brought on Balance Sheet. Where this is the case, such items are classed in accounting terms as a form of borrowing. CLG has therefore proposed amending the Capital Finance Regulations to ensure that the impact on the Revenue account is neutral, with MRP for these items matching the principal repayment embedded within the lease agreement.

MRP Options:

7.6. Four options for prudent MRP provision are set out in the CLG Guidance. Details of each are set out below:

Option 1 – Regulatory Method:

7.7 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:

7.8 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:

7.9 Under this method MRP is determined by the life of the asset for which the borrowing is undertaken. This can be calculated by either of the following methods:

(a) Equal Installments: where the principal repayment made is the same in each year,

or

(b) Annuity: where the principal repayments increase over the life of the asset.
The annuity method has the advantage of linking MRP to the benefits arising from capital expenditure, where these benefits are expected to increase over the life of the asset.

7.10 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.

7.11 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.

7.12 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.

7.13 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.

7.14 MRP in respect of Operating Leases brought on Balance Sheet under IFRS falls under Option 3.

Option 4 - Depreciation Method:

7.15 The deprecation 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 2011/12:

7.16 It is proposed that for 2011/12 the Council adopts Option 3 – Asset Life Method. Option 3 enables the calculation of MRP to be aligned with the life of the asset. If it is ever proposed to vary the terms of this MRP Statement during the year, a revised statement will be made to Council at that time.

8. Reporting on Treasury Management

The scrutiny of the treasury management function is carried out by the Audit Committee who then make recommendations to Full Council. The Assistant Director (Finance and Corporate Services) will report to Council/Audit Committee on treasury management activity / performance as follows:

(a) Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

(b) Audit Committee will review the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators twice per year and recommend them to Council for Approval

(c) Audit Committee will monitor Treasury Management activity quarterly and annually and will approve the Treasury Management Practices on an annual basis

(d) Full Council will receive the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators prior to the start of the financial year and a mid year review against the strategy approved for the year.

(e) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

9. Other Items

Training

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

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

Treasury Consultants

The CLG's Draft revisions to its Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and;
- How the quality of any such service is controlled.

The Council appointed Arlingclose as its Treasury Advisers in 2005. The provision of treasury advisory services was formally re-tendered in autumn 2009 and Arlingclose was reappointed. Among the various services received is **advice** on capital financing, borrowing and investments appropriate to the Council's individual circumstances and objectives.

The Council monitors the service through measuring:

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

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

Publication

The CLG's Draft revisions to its Guidance on local government investments recommend that the initial strategy and any revised strategy should, when approved, be made available to the public free of charge, in print or online.

The Council makes available online its Treasury Management Strategies within the finance section of the website. This includes both the initial strategy as well as any revisions. Should any member of the public request a printed copy, this would be provided free of charge.

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	31/03/10 £'000	31/03/11 £'000	31/03/12 Estimate £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000
External Borrowing:	0	0	0	0	0
Long-term liabilities - Finance Leases	445	301	113	50	21
Total External Debt	**445**	**301**	**113**	**50**	**21**
Investments: *Managed in-house* • Deposits and monies on call and Money Market Funds • Supranational bonds • Corporate bonds	21,960 11,851 5,337	20,000 13,538 5,195	27,560 9,209	28,609 7,101	34,585 1,101
Total Investments	**39,148**	**38,733**	**36,769**	**35,710**	**35,686**
(Net Borrowing Position)/ Net Investment position	**38,703**	**38,432**	**36,656**	**35,660**	**35,665**

APPENDIX B

PRUDENTIAL INDICATORS 2010/11 TO 2012/13

Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Assistant Director Finance and Corporate Services reports that the authority had no difficulty meeting this requirement in 2010/11, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

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. The actual expenditure for 2009/10 and the estimates of capital expenditure to be incurred for the current and future years are:

	2009/10 Actual £'000	2010/11 Actual £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Approved capital schemes	6,446	5,812	5,034	1,850	403
Investments	0	0	0	0	0
Reserves	1,932	2,461	1,168	803	600
New Schemes for 2010/11 start	0	0	307	0	0
Total Expenditure	**8,378**	**8,273**	**6,509**	**2,653**	**1,003**

The figures in the later years are lower at this stage but will increase as anticipated capital projects are approved. Additional capital expenditure will also occur if new capital receipts are received and used to finance projects currently on the reserve list, as per the capital strategy.

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

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

Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2009/10 are:

Portfolio	2009/10 Actual £'000	2010/11 Actual £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Financing Costs*	(2,218)	(1,084)	(673)	(383)	(208)
Net Revenue Stream	19,765	20,716	17,345	16,356	16,255
%*	**(11.2)**	**(5.2)**	**(3.9)**	**(2.3)**	**(1.3)**

*Figures in brackets denote income through receipts or reserves.

The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. The figures are in brackets due to investment income outweighing financing costs significantly for SSDC. This shows the extent that the Council is dependent on investment income.

The percentages are falling as the revenue stream increases, i.e. the budget requirement is becoming larger and the investment income smaller as more capital is spent.

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:

	2009/10 Actual Restated £'000	2010/11 Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Opening CFR	9,642	9,461	9,414	9,288	9,226
Capital Expenditure	6,259	5,812	5,034	1,850	403
Capital Receipts*	(1,989)	(3,078)	(3,664)	(965)	(61)
Grants/Contributions*	(4,270)	(2,734)	(1,370)	(885)	(342)
MRP	(181)	(208)	(126)	(62)	(30)
Additional Leases taken on during the year		161			
Closing CFR	**9,461**	**9,414**	**9,288**	**9,226**	**9,196**

*Figures in brackets denote income through receipts or reserves.

The capital financing requirement has changed due to the way we need to account for leases.

Prudential Indicator 4 – Net external Borrowing compared to the medium term 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 net external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period.

	2009/10 Actual £'000	2010/11 Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Net Borrowing*	(38,188)	(37,936)	(46,434)	(44,266)	(43,205)
CFR	9,461	9,414	9,288	9,226	9,196

*The figures in brackets show the estimated level of investments we currently have.

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.

	2009/10 % Actual	2010/11 % Outturn	2011/12 % Limit	2012/13 % Limit	2013/14 % Limit
Fixed	38.7	32.9	80	80	80
Variable	61.3	67.1	100	100	100

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

	2009/10 % Actual	2010/11 % Outturn	2011/12 % Limit	2012/13 % Limit	2013/14 % Limit
Fixed	0	0	100	100	100
Variable	0	0	100	100	100

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

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

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

Upper Limit for total principal sums invested over 364 days	2009/10 Actual £'000	2010/11 Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Between 1-2 years	8,604	3,218	25,000	25,000	25,000
Between 2-3 years	3,296	6,000	20,000	20,000	20,000
Between 3-4 years	2,001	1,174	10,000	10,000	10,000
Between 4-5 years	1,160	0	10,000	10,000	10,000
Over 5 years	0	0	5,000	5,000	5,000

The estimates are considerably higher than the actual balances held in 2009/10 and 2010/11 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 - 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 31/03/2011	**£'000**
Borrowing	0
Other Long-term Liabilities	301
Total	**301**

Prudential Indicator 8 - 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. The results for 2009/10 and 2010/11 show that this limit has not been used. A £9.1m borrowing requirement has been identified to finance the capital programme and further borrowing may be undertaken to increase our borrowing to this level if and when it is the most cost effective way of funding SSDC's requirements. A ceiling of £12 million for each of the next three years is recommended, to allow flexibility to support new capital projects over and above the identified borrowing requirement.

The move to local authorities implementing International Financial Reporting Standards (IFRS) has had implications for the Capital Financing Requirement components on the Balance Sheet. Analysis of the Council's leases against IFRS implications have resulted in the related assets and liabilities being brought onto the Council's balance sheet.

	2009/10 Actual £'000	**2010/11 Outturn £'000**	**2011/12 Estimate £'000**	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**
Borrowing	0	0	11,600	11,600	11,600
Other Long-term Liabilities	348	301	400	400	400
Total	**348**	**301**	**12,000**	**12,000**	**12,000**

Prudential Indicator 9 – Operational Boundary for External Debt:

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

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

	2009/10 Actual £'000	2010/11 Probable Outturn £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Borrowing	0	0	9,700	9,700	9,700
Other Long-term Liabilities	348	301	300	300	300
Total	**348**	**301**	**10,000**	**10,000**	**10,000**

Prudential Indicator 10 - 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	2009/10 % Actual	2010/11 % Probable Outturn	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 11 - Incremental Impact of Capital Investment Decisions:

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

Incremental Impact of Capital Investment Decisions	2009/10 Approved £	2010/11 Approved £	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £
Decrease in Band D Council Tax	0.92	0.20	0.20	0.20	0.20

Prudential Indicator 12 - 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 18th April 2002.

Arlingclose's Economic and Interest Rate Forecast

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
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
Central case	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.25	1.50	1.75	2.00	2.25
Downside risk						-0.25	-0.25	-0.50	-0.75	-1.00	-1.25	-1.50	-1.75
1-yr LIBID													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.70	1.75	1.80	1.90	2.10	2.30	2.50	3.00	3.00	3.00	3.25	3.50	3.75
Downside risk	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.35	1.50	1.60	1.80	1.95	2.10	2.30	2.50	2.75	3.00	3.25	3.50	3.75
Downside risk	-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
10-yr gilt													
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
Central case	2.40	2.60	2.80	2.90	3.00	3.15	3.25	3.50	3.75	3.75	4.00	4.00	4.25
Downside risk	-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
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.20	3.40	3.60	3.80	4.00	4.15	4.25	4.50	4.50	4.50	4.75	4.75	5.00
Downside risk	-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
50-yr gilt													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.65	3.80	4.00	4.15	4.25	4.25	4.50	4.50	4.75	4.75	4.50	4.50	4.50
Downside risk	-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

- The momentum in growth has weakened globally as financial pressures intensify and sovereigns attempt to defuse their debt and deficit problems.

- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012.

- Credit risks will persist until a credible Euroland solution is agreed which will keep gilts and sovereign bonds volatile in the interim.

Underlying Assumptions

- Financial Markets have continued to worsen under sovereign stress which have pushed down future growth prospects.

- As expected the minutes of the Bank of England's September meeting saw the MPC members vote to keep rates on hold at 0.5%. Surprisingly it indicated that Posen was closer to convincing some members into increasing the asset purchase programme, although further QE may not be embarked upon as headline inflation falls back closer to target.

- Inflation increased slightly to 4.5% in August which the MPC attributes to 'temporary' factors. CPI is set to rise rather than fall in the near term due to the announced increases in gas and electricity prices putting increased pressure on disposable incomes.

- Business confidence has yet to recover sufficiently for commitment to new capital investment and employment. Job creation is simply too weak to prevent unemployment rising above the current level of 7.9%.

- Wage growth remains modest and inflation remains high for non-discretionary items (food, fuel, energy). Retail sales will remain weak as stagnant property and asset values and high unemployment encourage consumers to lower debt rather than spend.

- The debt reduction and sustainability effort remains on track – just - to meet the coalition's target. With the risk of lower growth, there is very little scope for tax giveaways to boost business and consumer spending.

- Data throughout the month has pointed towards a slowdown in the eurozone. Weaker growth forecasts will provide the ECB with room to cut rates further. With a potential deal for Greece emerging, yields could bounce back up cooling the need for a rate cut.

- The FOMC announced that they would embark on an operation to sell short dated assets and replace them with longer dated securities in order to reduce longer term rates. The hope is that this will decrease mortgage rates whilst boosting the attractiveness of other asset classes such as stocks.

APPENDIX D

Specified and Non Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high” credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- Local Authority Bills (LA Bills)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

1. ** Investments in these instruments will be on advice from the Council’s treasury advisor.*

2. 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 individual manager.

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard & Poor's, Fitch Ratings.

Long-term minimum: A1 (Moody's) or A+ (S&P) or A+(Fitch)
Short-term P-1 (Moody's) or A-1 (S&P) or F1 (Fitch).

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

New specified investments will be made within the following limits:

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits %/£m**
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	
Term Deposits/Call Accounts	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
LA-Bills	UK	Other UK Local Authorities	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	

Our full Counterparty list is as follows:

Instrument	Country	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£
Term Deposits	UK	DMADF, DMO	No limit	
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit	
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group	£6,000,000	
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£6,002,000	£9,002,000
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£6,000,000	
Term Deposits/Call Accounts	UK	Barclays Bank Plc	£6,000,000	
Term Deposits/Call Accounts	UK	Clydesdale (This is part of the NAB group which has a combined limit of £6m)	£6,000,000	£6,000,000
Term Deposits/Call Accounts	UK	HSBC Bank Plc	£6,000,000	
Term Deposits/Call Accounts	UK	Nationwide Building Society	£6,000,000	
Term Deposits/Call Accounts	UK	Royal Bank of Scotland	£6,000,000	
Term Deposits/Call Accounts	UK	Standard Chartered Bank	£6,000,000	
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£6,000,000	
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£6,000,000	
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	See Clydesdale above	£6,000,000
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£6,000,000	
Term Deposits/Call Accounts	Canada	Bank of Montreal	£6,000,000	

Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£6,000,000	
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£6,000,000	
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£6,000,000	
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£6,000,000	
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	£6,000,000	
Term Deposits/Call Accounts	France	BNP Paribas	£6,000,000	
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£6000,000	£6,000,000
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£6,000,000	
Term Deposits/Call Accounts	France	Societe Generale	£6,000,000	
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£6,000,000	
Term Deposits/Call Accounts	Netherlands	ING Bank NV	£6,000,000	
Term Deposits/Call Accounts	Netherlands	Rabobank	£6,000,000	
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	£6,000,000	
Term Deposits/Call Accounts	Switzerland	Credit Suisse	£6,000,000	
Term Deposits/Call Accounts	US	JP Morgan	£6,000,000	

NB. The Section 151 officer has the delegated authority to make decisions within the parameters of this list, but has the responsibility to temporarily suspend any counterparty which does not meet the minimum criteria.

Although Natwest does not meet the minimum credit rating criteria of A+ (or equivalent) long term, it is the Council's bank and will still be used for operational purposes. Balances of smaller amounts (less than £300,000) will be kept within our Natwest Account to ensure operational and contingency purposes are maintained.

<u>Non-Specified Investments determined for use by the Council</u>

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?
▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies	✓ ✓	 ✓	*5 yrs*	*70%* in aggregate	No
▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments	✓ (on advice from treasury advisor)	✓	*10 years*	*70%* in aggregate	No
Money Market Funds and Collective Investment Schemes which are not credit rated	✓ (on advice from treasury advisor)	✓	These funds do not have a defined maturity date	*50%*	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies (e.g. govt bonds issued by HBOS / RBS / Nationwide, etc)	✓	✓	*10 years*	*£15m*	Yes

Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	✓	✓	*10 years*	*£5m*	Yes
Collective Investment Schemes (Pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573	✓ (on advice from treasury advisor)	✓	These funds do not have a defined maturity date	*£5m*	Yes

Investments which constitute capital expenditure will not in aggregate exceed £20m.

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

2. 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 individual manager.

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

8. Treasury Management Practices

Strategic Director: *Mark Williams, Chief Executive*
Assistant Director: *Donna Parham (Finance and Corporate Services)*
Service Manager: *Amanda Card, Finance Manager*
Lead Officer: *Karen Gubbins, Principal Accountant - Exchequer*
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Purpose of the Report

To request members of the Audit Committee to approve the Treasury Management Practices (TMPs) as attached at the end of the agenda.

Recommendation

That members approve the attached Treasury Management Practices.

Background

The CIPFA Code of Practice on Treasury Management in the Public Services, which was revised in 2001, had further revision in 2009. 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 2009 Code in March 2010. 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 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

Detailed schedules supporting these practices and other documents are held at an operational level specifying the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions.

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 PRACTICES

Principles & Schedules

October 2011

South Somerset District Council

TREASURY MANAGEMENT PRACTICES

TMP 1 RISK MANAGEMENT

The responsible officer will design, implement and monitor all arrangements 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 TMP6 *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 within this document.

1.1 CREDIT AND COUNTERPARTY POLICIES

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 *TMP4 Approved Instruments, methods and techniques* and listed in the schedule to this document. 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.

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

a) The Assistant Director – Finance and Corporate Services will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector, sovereign status and specific counterparty limits.

b) Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. All credit warnings are sent to a generic e-mail address: Treasury. This inbox must be checked for any alerts before investments are made.

c) 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.

d) This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support, CDS information). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties

e) The Assistant Director – Finance and Corporate Services has imposed the use of Sovereign ratings. The sovereign rating criteria the Council has adopted will be as follows (using the lowest common denominator across all three rating agencies)

£12.0 million for an AAA rated country

£6.0 million for an AA+ rated country

The Council will not be investing in any country that has less than an AA+ rating. Investments within Great Britain are exempt from the sovereign rating criteria.

The overall aim is to ensure that no more than £6.0 million is invested in any one counterparty or group.

There is no limit to lend to the following institutions (as these are AAA rated government bodies): -

Debt Management Account Deposit Facility (DMADF)

European Investment Bank (EIB)

The maximum period for investments will be 5 years, with the exception of UK gilts, sovereign issues and bonds issued by financial institutions guaranteed by the UK government, and bonds issued by the EIB (which is guaranteed by the governments of the European Union).

1. The maximum period for investment for subsidiaries of counterparties which do not have credit ratings in their own right, but do have unconditional guarantees from a parent is nil.
2. The maximum value for any one investment transaction will be £6.0 million for all counterparties included within the lending list (except those that are specifically £3m).
3. There is a maximum level of investment with any one group of counterparties of £6.0 million.
4. There is no maximum percentage of the portfolio that may be invested in the building society sector.
5. The approved counterparty list may include non UK registered counterparties from the following foreign countries: -

Australia
Canada
Finland
Germany
Netherlands
Sweden
Switzerland
United States of America

Dealing shall be conducted, either directly or via a broker, having first consulted the FSA register of organisations authorised to accept deposits within the UK.

(www.fsa.gov.uk/pages/library/other_publications/banks)

Approved methodology for changing limits and adding/removing counterparties

Credit ratings for individual counterparties can change at any time. The Assistant Director – Finance and Corporate Services is responsible for applying the stated credit rating criteria in 1.1.1. when selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers.

The Assistant Director – Finance and Corporate Services will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria in 1.1.1.

The Assistant Director – Finance and Corporate Services will also take action to suspend various institutions and/or increase credit rating criteria where changes in risks are identified.

1.1.2. Full individual listings of counterparties and counterparty limits as at 17/10/11

Counterparty	**Country**	**Maximum Limit of Investments %/£m**
DMADF, DMO	UK	No limit
Other UK Local Authorities	UK	No limit
Santander UK (formally Abbey)	UK	£6,000,000
~~Bank of Scotland/Lloyds~~ Temporarily Suspended	~~UK~~	~~£6,000,000~~
Barclays	UK	£6,000,000
~~Clydesdale (This is part of the NAB group which has a combined limit of £6m)~~ Temporarily Suspended	~~UK~~	~~£6,000,000~~
HSBC	UK	£6,000,000
~~Nationwide~~ Temporarily Suspended	~~UK~~	~~£6,000,000~~
~~Royal Bank of Scotland~~ Temporarily Suspended	~~UK~~	~~£6,000,000~~
Australia and NZ Banking Group	Australia	£6,000,000
Commonwealth Bank of Australia	Australia	£6,000,000
National Australia Bank Ltd	Australia	See Clydesdale above
Westpac Banking Corp	Australia	£6,000,000
Bank of Montreal	Canada	£6,000,000
Bank of Nova Scotia	Canada	£6,000,000
Canadian Imperial Bank of Commerce	Canada	£6,000,000
Royal Bank of Canada	Canada	£6,000,000
Toronto-Dominion Bank	Canada	£6,000,000
Nordea Bank Finland	Finland	£6,000,000
~~BNP Paribas~~ Temporarily Suspended	~~France~~	~~£6,000,000~~
~~Credit Agricole CIB (part of the Credit Agricole Group which has a combined limit of £6m)~~ Temporarily Suspended	~~France~~	~~£6,000,000~~
~~Credit Agricole SA (part of the Credit Agricole Group which has a combined limit of £6m)~~ Temporarily Suspended	~~France~~	~~£6,000,000~~
Deutsche Bank AG	Germany	£6,000,000
Rabobank	Netherlands	£6,000,000
ING	Netherlands	£6,000,000
Svenska Handelsbanken	Sweden	£6,000,000
Credit Suisse	Switzerland	£6,000,000
JP Morgan Chase Bank	US	£6,000,000

European Investment Bank/Council of Europe	EU	75%
CNAV MMFs	UK/Ireland/ Luxembourg	25%

1.1.3. Details of credit rating agencies' services or other services which provide current credit ratings and updates on changes

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, supplied via its treasury management advisers, Arlingclose.

1.1.4. 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 on share price.

1.2 LIQUIDITY

The Council will ensure it 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 or to finance future debt maturities.

1.2.1. Amounts of approved minimum cash balances and short-term investments

There are no minimum cash balances as a proportion of SSDC's funds that are held in instantly accessible instruments and are liquid to the extent that funds can be returned at short notice.

The optimum daily cash balance is set at £0 but the minimum placement that will be accepted in the marketplace is approximately £700,000, plus each CHAPS transfer costs £10.00. Optimum short-term investments change from year to year depending on market forces in place. However, added value can be gained from investing smaller amounts (approximately £300,000) in the Money Market Funds at market rates.

Our Minimum rating is A+ long term (or equivalent). Although Natwest does not meet the minimum credit criteria of A+ (or equivalent) long term, it is the Council's bank and will still be used for operational purposes. Balances of smaller amounts (less than £300,000) will be kept within our Natwest Account to ensure operational and contingency purposes are maintained.

1.2.2. Details of:

a) Standby facilities: -

Manual CHAPS transfers can be processed at the local branch of National Westminster Bank by faxing them through a copy of our completed manual CHAPS form.

b) Bank overdraft arrangements: -

South Somerset District Council has a £0.5 million overdraft facility with National Westminster Bank. This is aggregated over all SSDC bank accounts held by them. The council has the facility to increase this to £2.5 million by request.

c) Short-term borrowing facilities

Section 12 of the Local Government Act, 2003 details all of the permitted sources of both short and long term borrowing for all LA's. Short-term borrowing can be by overdraft (as described above), loan instruments obtained through the money markets, carried out through one of our four brokers, and from other LA's.

The Councils operational borrowing limit is £10 million.

d) Insurance/guarantee facilities

The Council Insurance Officer has arranged for cover for fraud conducted by authorised signatories and for the cash balances in our accounts. We are not covered for default by a third party for any of our investments as this is controlled through our credit rating policy.

e) Other contingency arrangements.

SSDC operates a Business Reserve Account with Santander Plc and Bank of Scotland, and five Instant Access Money Market Accounts, one with Deutsche, one with Invesco Aim, one with Blackrock, one with Prime Rate and one with Ignis. These are only utilised so long as they meet the minimum requirements in terms of credit ratings.

The Santander account allows for 5 withdrawals per month without penalty, to cover any identified shortfall with our bank accounts. The Bank of Scotland account is instant access and has unlimited withdrawals per month and no penalties. The Money Market Fund accounts with

Deutsche, Invesco Aim, Blackrock, Prime Rate and Ignis allow for same day withdrawal without penalty.

See TMP 1.8.2 for Bankline and other computer contingency arrangements.

1.3 INTEREST RATE

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

It will achieve these objectives 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 to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

1.3.1. Details of approved interest rate exposure limits

At Council on 17th March 2011 members agreed to allow SSDC to have up to 100% invested in variable rate investments to cover against market fluctuations. There is reliance on the investment income receivable in maintaining a balanced revenue budget and therefore the long term strategy will be to maintain stability by having a significant amount invested in fixed rate of return investment instruments. Our tactical position is to utilise all of our investment streams and take advantage of economic changes as they arise.

1.3.2. Trigger points and other guidelines for managing changes to interest rate levels

SSDC has appointed the services of Arlingclose Ltd to act as our advisor and consultant on Treasury Management matters. Accordingly Council Officers will respond to their advice in respect of investment and economic forecasts. The Council has a strategy of mixing fixed rate investments with variable to ensure stability on the one hand and also to accept certain level of risk for return. This is reviewed both annually through the Strategy Statement and also quarterly via Treasury Management Activity Reports considered by the Audit Committee. Regular discussions are also carried out with Arlingclose Ltd. The Assistant Director – Finance and Corporate Services in consultation with the Assistant Director – Legal and Corporate Services have delegated powers to buy and sell fixed rate investments to enable the Council to react quickly to interest rate changes and fluctuations.

1.3.3. Minimum/maximum proportions of variable rate debt/interest

The maximum proportion of interest on borrowing that is subject to variable rate interest is 100%.

1.3.4. Minimum/maximum proportions of fixed rate debt/interest

When economic conditions dictate, the Council's strategy is to have up to a maximum of 80% of its portfolio in fixed rate interest.

1.3.5. Policies concerning the use of financial derivatives and other instruments for interest rate management.

a) Forward dealing

Forward deals may be carried out where forward interest rates become favourable – Arlingclose gives this information and advice to the Treasury Management Team.

Forward deals may also be carried out where the placement of funds when they mature is known to be a problem e.g. over the Christmas period.

b) Callable deposits (fixed investments for up to 5 years at borrower's option)

Callable deposits are used only after advice from Arlingclose and the Assistant Director – Finance and Corporate Services.

c) LOBOs (borrowing under lender's option/borrower's option)

LOBOs are not currently used at SSDC. The Finance, Legal and Spatial Planning Portfolio Holder will approve any use of LOBOS before being exercised.

1.4 EXCHANGE RATE

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 fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.4.1 Approved criteria for managing changes in exchange rate levels

a) The Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Council will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Council will eliminate all foreign exchange exposures as soon as they are identified.

b) Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

c) It is recognised that foreign currency transactions are unlikely to be material.

1.5 CAPITAL FINANCING

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 Council 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.

1.5.1. Projected capital investment requirements

The current capital strategy assumes that the capital programme will be financed through additional interest earned over budget as well as releasing new receipts to fund capital schemes. This will enable SSDC to be more proactive in dealing with the difficulties and unpredictability of funding that is likely to occur over the next few years.

1.5.2. Policy concerning limits on revenue consequences of capital financing.

All Capital bids must outline the revenue consequences in terms of loss of interest and additional running costs etc through a Project Brief Appraisal Form. The Form also includes a statement of

Whole Life Costing for the project. All revenue consequences are fed into the medium term financial plan and are taken into account when projects are approved.

Any projects applying for “Save to Earn” funding have to show a robust business plan providing evidence that the revenue stream can be generated, sensitivity analysis, and comment on the risks involved.

1.6 LEGAL AND REGULATORY

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 *TMP 1.1 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 Council.

1.6.1. References to relevant statutes and regulations

Investments are made within the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting)(England) Regulations [SI 2004 No.534]. Reference to these statutes should be made if there is any doubt as to the legality of prospective transactions.

1.6.2. Procedures for evidencing the organisation’s powers/authorities to counterparties

Counterparties are sent the appropriate report and minute giving the delegated authority of Assistant Director – Finance and Corporate Services and an authorised lending list if requested.

1.6.3. Required information from counterparties concerning their powers/authorities

All counterparties are asked for a letter of confirmation once a lending deal is made. All counterparties are only used if on the approved list and meet minimum credit rating criteria.

1.7 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT

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.

1.7.1. Details of systems and procedures to be followed, including internet services

In order to minimise instances of fraud, error and corruption, a number of procedures have been designed to protect both officers and third parties in the event of dispute. An overview of these procedures are listed below according to the type of investment. Any problems are to be reported to the Assistant Director – Finance and Corporate Services. All conversations relating to investments or borrowings are to be recorded, using the tape recorder situated on the Insurance and Accounting Technician's desk. This is in accordance with accepted procedures and best practice. These tapes are to be kept for 1 year from the last recording.

Money Market Investments

When setting up this type of deal, all conversations with brokers and when dealing directly are to be recorded. It is of paramount importance that all details of the deal are clearly understood by all parties in order to avoid entering into a deal which is different from that intended, and embarrassing and unnecessary awkward situations. Counterparties are only those on the authorised lending list.

When any deal confirmation is received it is to be checked immediately with relevant details in the file and on the TINVESTS spreadsheet. Any discrepancies are to be reported immediately. A copy of all correspondence relating to the deal is also to be kept on file.

The Money Market Brokers will only use the latest SSDC bank details given to them. They will only accept a change to those details if instructed on headed paper and signed by the Section 151 officer or Deputy Section 151 officers.

Santander Business Reserve Account

The procedure for making deposits into the Santander Business Reserve Account is broadly similar to that described above. Appropriate spreadsheets are to be completed.

Bank of Scotland Account

Funds are deposited into this account by CHAPS payment to the Bank of Scotland. When a withdrawal is to be made from the account, the procedure is the same for deposits, except that a withdrawal worksheet is to be completed and processed. At present there are no restrictions on the number of withdrawals nor is there any charge.

Money Market Funds

SSDC currently has five money market funds (MMF) accounts, Deutsche, Invesco Aim, Blackrock Asset Management, Prime Rate and Ignis. Deposits and withdrawals are similar for all five funds. Initial contact is by phone, all conversations being recorded, giving amount to be deposited, account number and date of transaction. For deposits, a CHAPS form, the temporary investments worksheet and the control sheet are to be completed and processed as above.

When a withdrawal is to be made from the account, the procedure is the same for deposits, except that an MMF repurchase worksheet only is to be completed and processed. Appropriate spreadsheets are to be completed.

1.7.2. Emergency and contingency planning arrangements

In the event of the Natwest online banking website being unavailable or the internet at SSDC being down, the balance of both accounts held with Natwest would need to be sought from them via telephone. A Member of the Treasury Team would need to do this before placing any investments that day.

1.7.3. Insurance cover details.

The Council Insurance & Accounting Technician has arranged fidelity guarantee against loss of money as a result of fraud or dishonesty. We are not covered for default by a third party for any of our investments, as this is controlled through our credit rating policy.

1.8 MARKET VALUE OF INVESTMENTS

The 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.

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

The only in-house investments of the above type are EuroSterling Bonds issued by the EIB or UK government guaranteed bonds and debt instruments issued by banks/building societies, which are purchased on advice from Arlingclose with the intention to hold them to maturity.

The purchase or sale of such instruments can only be undertaken with the prior permission of the Assistant Director – Finance and Corporate Services following receipt of appropriate advice from Arlingclose.

1.8.2. Accounting for unrealized gains/losses

The method of accounting for unrealised gains or losses on the valuation of financial assets comply with Accounting Code of Practice.

1.9 INFLATION RISK MANAGEMENT

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the Council as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve this objective 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 to take advantage of unexpected, potentially advantageous changes in the level or structure of inflation. The above is subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENTS

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 organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements

2.1 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

The officer (Principal Accountant – Exchequer) authorises each day's transactions to show that she is satisfied with that day's transactions and that all of the necessary controls and documentation have been carried out. Other than daily and routine dealings, advice is sought from Arlingclose as necessary for other transactions.

Longer term decisions are made depending on economic forecasts and the effect the decision will make on the revenue income to the budget. At the present time the treasury management function contributes an annual sum of approximately £0.8m. This will depend on the strategy at the time, weighing up fixed term investments that will give certainty of return versus economic forecasts of future interest rates.

The Principal Accountant – Exchequer will arrange and chair monthly review meetings with all those involved in the Treasury Management function. Quarterly meetings are held between the Assistant Director – Finance and Corporate Services and Principal Accountant – Exchequer to review strategic treasury matters.

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.

2.2 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT

2.2.1 Frequency and processes for tendering

Re-tendering should occur every three to five years if a Fund Manager is in place. Fund Managers should be sent a questionnaire and short listed for interview. The Assistant Director – Finance and Corporate Services, with support from Arlingclose, should conduct the interview.

2.2.2 Banking services

Banking services should be reviewed, re-tendered or renegotiated every five years (with contract provisions to extend current service) to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3 Money-broking services

This organisation may use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

2.2.4 Consultants'/advisers' services

This organisation's policy is to appoint full-time professional treasury management consultants. Our current consultants are Arlingclose.

2.2.5 Policy on external managers

a) The Organisation's policy is to appoint full-time professional cash/external investment fund managers and to comply with the Local Organisations (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883].

b) The delegation of investment management to external managers entails the following:

- Agreement of a formal contractual agreement and documentation;
- Agreement on terms for early termination of the contract;
- Setting of a benchmark and a performance target;
- Setting of investment counterparty constraints;
- Periodic reporting of performance;
- Periodic meetings with investment managers;
- Setting of other constraints/parameters/conditions:

The authority currently does not employ any fund managers.

c) The Code of Practice places an obligation on the organisation to monitor the performance of the fund manager, if appointed.

2.2.6 Methods to be employed for measuring the performance of the organisation's treasury management activities

The investment income is benchmarked and monitored against those benchmarks. The council's advisors, Arlingclose, measure the funds against the benchmark and their performance. Arlingclose also provides a quarterly report detailing their opinion of performance. A report of all investments is compiled and reported to the Assistant Director – Finance and Corporate Services each quarter.

2.3 <u>BENCHMARKS AND CALCULATION METHODOLOGY</u>

2.3.1 Debt management

Average rate on all external debt

2.3.2 Investment

The performance of investment earnings will be measured against the following benchmarks: -

a) In house investments

7 day LIBID

b) Cash fund manager(s)

Not applicable

TMP 3 DECISION-MAKING AND ANALYSIS

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.

3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES:

3.1.1 Daily investment procedures and processes

The daily banking procedures and steps to be carried out are held at operational level.

3.1.2 Records to be kept

a) General records: -

a. Daily cash flow
b. Daily banking
c. Temporary investments
d. Individual paper records of all investments made including correspondence from counterparties and brokers.
e. Daily record of cash balances available for investment.
f. Paper records of all CHAPS forms and other correspondence.
g. Paper record of the Control worksheet from the TINVESTS spreadsheet to accompany each CHAPS, and one to be filed with investment details.
h. Copies of any faxes, emails, letters or other correspondence relating to any other aspect of Treasury Management, eg changes in counterparty details, market reports and bulletins sent to the Council from Arlingclose.
i. Minutes of Council meetings relating to Treasury Management issues.
j. Monthly and quarterly reports from the external Fund Managers.

b) Temporary Lending:-

A Temporary Investment Worksheet.

- Control Worksheet
- Tape recording of all conversations with brokers and direct dealing institutions relating to temporary investments. The tapes are to be kept for a period of 1 year after the last recording.

A CHAPS form is to be completed, checked, and authorised. The CHAPS forms are available from Cashiers.

The Temporary Investments spreadsheet needs completion

3.1.3 Borrowing procedures and processes

a) General Records:-

a. Daily cash flow
b. Daily banking
c. Temporary loans
d. Individual paper records of all loans including correspondence from counterparties and brokers.
e. Daily record of cash balances available for investment.
f. Paper records of all CHAPS forms, confirmations and other correspondence.

b) Temporary Borrowing

Temporary borrowing is conducted through the money markets via the authorised brokers above. Unlike investments, there is no authorised list of institutions from whom we can borrow. The process is, in principle, the same as that for temporary investments, with the exception that the CHAPS form is processed on the day the principal plus interest is returned to the counterparty.

A Temporary Loan Worksheet – can be found in the Daily Banking File

3.1.4 Issues to be addressed.

3.1.4.1 In respect of every decision made SSDC will:

a) above all be clear about the nature and extent of the risks to which SSDC may become exposed
b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
c) Be content that the documentation is adequate both to deliver SSDC's objectives and protect the organisation's interests, and to deliver good housekeeping
d) Ensure that third parties are judged satisfactory in the context of the SSDC's creditworthiness policies, and that limits have not been exceeded
e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.4.2 In respect of borrowing and other funding decisions, SSDC will:

a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund

b) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships

c) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

d) Consider the ongoing revenue liabilities created, and the implications for the organisation’s future plans and budgets.

3.1.4.3 In respect of investment decisions, SSDC will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions

b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

c) The above issues will be addressed with reference to Council policy and strategy and after considering the advice provided by the Council’s treasury advisors, Arlingclose.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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*."

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Organisation's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Superannuation Fund).
- managing the underlying exchange rate risk associated with the Organisation's business activities.

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

The Council will determine through its Annual Investment Strategy which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorized as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended)

4.3 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act, 1989, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●

Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Bank Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing

Government and EC Capital Grants

Lottery monies

PFI

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Assistant Director – Finance and Corporate Services in consultation with the Assistant Director – Legal and Corporate Services has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from the approved sources.

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and 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 principles 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 arrangement 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 to this document.

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 to this document.

The delegation to the responsible officer in respect of treasury management is set out in the schedule to this document. 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.

5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE LEVELS

Council

a) Receiving and reviewing reports on treasury management policies, practices and activities.
b) Receiving and reviewing Prudential Indicators as part of the budget setting process
c) Budget consideration and approval.

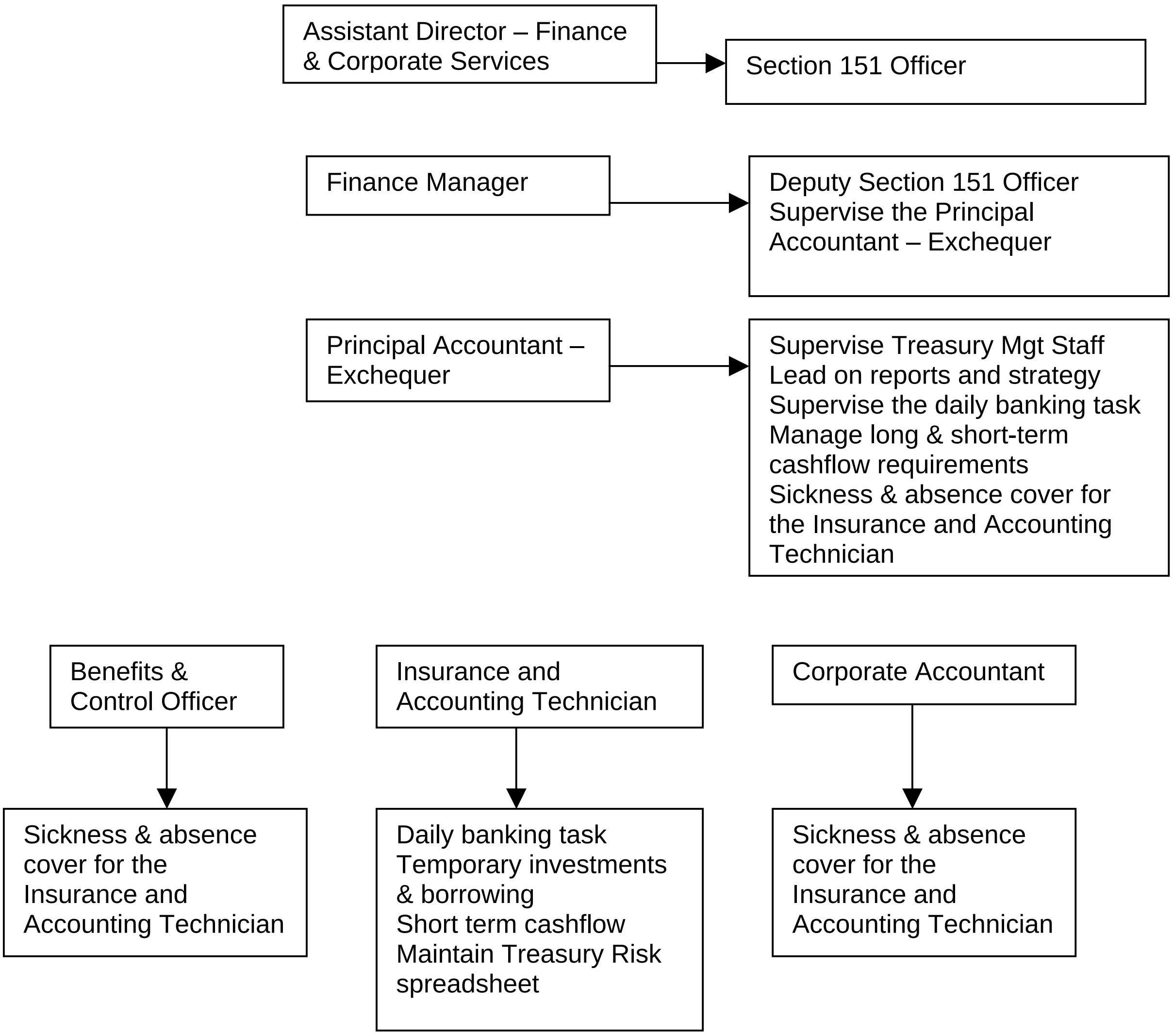
Audit Committee

a) Approval of amendments to the organisation's adopted clauses and treasury management policy statement and treasury management practices.
b) Approval of annual report on Treasury Management
c) Budget consideration and amendments.
d) Approval of the decision of responsibilities
e) Receiving and reviewing external audit reports and acting on recommendations
f) Approving the selection of external service providers and agreeing terms of appointment
g) Approval of amendments to Treasury Management Procedures
h) Overview of Treasury Management function

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

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

5.3 TREASURY MANAGEMENT ORGANISATION CHART



5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1. Assistant Director – Finance & Corporate Service

1. The Assistant Director – Finance and Corporate Service will:

   a) Recommend clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance
   b) Determining 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 liasing with external audit
   i) Recommend the appointment of external service providers.

2 The Assistant Director – Finance & Corporate Services has delegated powers in consultation with the Assistant Director – Legal & Corporate Services through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

3 The Assistant Director – Finance & Corporate Services may delegate her power to borrow and invest to members of her staff. The Finance Manager, Principal Accountant – Exchequer, Corporate Accountant, Insurance and Accounting Technician or Benefits & Control Officer must conduct all dealing transactions, or staff authorised by the Assistant Director – Finance & Corporate Services to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.

4 The Assistant Director – Finance & Corporate Services and the Assistant Director – Legal & Corporate Services will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

5 Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Assistant Director – Finance & Corporate Services to be satisfied, by reference to the Monitoring Officer (Assistant Director – Legal & Corporate Services), the

Organisation’s legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Organisation’s Financial Regulations

6 It is also the responsibility of the Assistant Director – Finance & Corporate Services to ensure that the Organisation complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2 Principal Accountant – Exchequer

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

5.4.3 Chief Executive Officer

The responsibilities of this post will be: -

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

5.4.4 Monitoring Officer

The responsibilities of this post will be: -

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

c) Giving advice to the Assistant Director – Finance & Corporate Services when advice is sought.

5.4.5 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.

5.5 ABSENCE COVER ARRANGEMENTS

In the absence of the Assistant Director – Finance & Corporate Services, the Finance Manager shall take on board the responsibilities and duties of the Assistant Director – Finance & Corporate Services.

Under the supervision of the Principal Accountant – Exchequer, 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 Corporate Accountant

In the absence of the Principal Accountant - Exchequer her responsibilities and duties will be undertaken by the Finance Manager or the Assistant Director – Finance & Corporate Services (or officers authorised by her to act as temporary cover) supported by the rest of the Treasury Management team.

5.6 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.

5.7 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

5.8 POLICY ON BROKERS' SERVICES

The treasury function has always maintained a good relationship with four brokers. This has been deemed adequate for the size and number of market transactions conducted by the Council whilst simultaneously ensuring there is sufficient spread to ensure that the best deals are being struck. Any changes to the list of approved brokers will not be made without prior consultation to with the Assistant Director – Finance & Corporate Services.

5.9 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 cassette tapes are to be kept for a period of one year from the last recording.

5.10 DIRECT DEALING PRACTICES

The following institutions form the approved list for direct dealing:

- Santander UK PLC
- Barclays Bank
- Bank of Scotland PLC
- Lloyds TSB
- National Australia Bank
- Nordea
- DMADF
- ING
- Svenska Handelsbanken
- Rabobank

No changes to this list will be made without prior consultation with the Assistant Director - Finance & Corporate Services.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

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

5.12 DOCUMENTATION REQUIREMENTS

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

5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS.

The following funds are managed by South Somerset District Council:

- Joint Burial Committee
- Dorcas House Trust
- SWAP
- 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

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 the 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

6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT AND THE ANNUAL INVESTMENT STRATEGY AND THE MRP STRATEGY

1. The Treasury Management Strategy Statement, together with the Annual Investment Strategy, sets out the specific expected treasury activities for the forthcoming financial year. These Strategies are to be submitted to Council for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this organisation may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

3. The Treasury Management Strategy is concerned with the following elements:

- the prospects for interest rates;
- the limits placed by this organisation on treasury activities
- the expected borrowing strategy;
- the expected temporary investment strategy (including the appointment of fund managers);
- the expectations for debt rescheduling;
- any extraordinary treasury issue (such as the implications of a LSVT or housing company setup).

4. The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

5. In accordance with the guidance issued under section 15(1)(a) of the Local Government Act 2003, the Council must publish its Annual Investment Strategy. This document sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

6. The Annual Investment Strategy states:-
   - The procedures for determining the use of each asset class, particularly if the investment falls under the category of **non-specified investment**;
   - The maximum periods for which funds may be prudently committed in each asset class;
   - The % limit to be invested in each asset class;
   - Whether the investment instrument is to be used by the Council's in-house officers and/or the appointed external fund managers;
   - The minimum amount to be held in short-term investments.

7. The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. It is therefore necessary for Council to approve a statement of the authority's MRP policy for 2010/11.

6.2 POLICY ON INTEREST RATE EXPOSURE

1. As required by section 3 of the Local Government Act 2003, the Council must approve before the beginning of each financial year the following borrowing limits:

• the overall borrowing limit	£12,000,000
• the amount of the overall borrowing limit which may be outstanding by way of short term borrowing	£10,000,000

2. The Assistant Director – Finance & Corporate Services is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Assistant Director – Finance & Corporate Services shall submit the changes for approval to the Audit Committee before submission to the full Council for approval.

6.3 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be presented to the Audit Committee at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will then be recommended to Full Council. This report will include the following: -

a. a comprehensive picture for the financial year of all treasury policies, plans, activities and results
b. transactions executed and their revenue (current) effects
c. report on risk implications of decisions taken and transactions executed
d. monitoring of compliance with approved policy, practices and statutory / regulatory requirements
e. monitoring of compliance with powers delegated to officers
f. degree of compliance with the original strategy and explanation of deviations
g. explanation of future impact of decisions taken on the organisation
h. measurements of performance
i. report on compliance with CIPFA Code recommendations

6.4 MID YEAR TREASURY REPORT

A mid year report will be produced for Audit Committee on the borrowing and investment activities of the treasury management function for the first six months of the financial year. This report will then be recommended to Full Council. This report will include the following: -

a. Economic forecast
b. Treasury Management Strategy Statement update
c. Performance versus benchmarks
d. Information on investments

e. Prudential indicators relating to treasury management

6.5 MANAGEMENT INFORMATION REPORTS

Management information reports will be prepared every month by the Principal Accountant – Exchequer and will be presented to the Assistant Director – Finance & Corporate Services

These reports will contain the following information: -

- Fund Manager returns, including value of fund, interest, benchmark rate and rate achieved, and forecast of interest for the remainder of the year.
- Information on investment in Eurobonds.
- 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.

6.6 PERIODIC MONITORING COMMITTEE REPORTS

Treasury Management Activity and Performance will be reported quarterly to the Audit Committee.

Treasury Management surpluses and deficits are reported to Management Board monthly and District Executive quarterly as part of the overall budget monitoring process.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare, and the organisation will approve and, if necessary, from time to time 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 a 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 that this organisation's budget will take is set out in the schedule to this document. 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 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.

7.1 <u>STATUTORY/REGULATORY REQUIREMENTS</u>

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.

7.2 <u>ACCOUNTING PRACTICES AND STANDARDS</u>

- CIPFA Code of Practice
- Code of Practice on Local Authority Accounting in the United Kingdom, A Statement of Recommended Practice (SORP)
- Treasury Management Policy and Practices
- Council's Statement of Accounts
- SSDC Financial Procedure Rules

7.3 BUDGET AND ACCOUNTS INFORMATION

Budget monitoring is carried out and reported to Management Board on a monthly basis and District Executive on a quarterly basis.

7.4 LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS.

a) Fund Managers

- Valuation of fund as at the 31st March each year.
- Two interim valuations from the year
- Monitoring spreadsheets
- Sample report to the Assistant Director – Finance & Corporate Services
- Cedar print of valuation in the Statement of Accounts
- Proof that non-approved investments have been financed through the capital programme

b) In-house Investments

- Spreadsheets and reconciliation of all investments capital sums and interest
- Cedar screen print of outstanding investments as at 31st March
- Sample of paperwork to show proper documentation of deals

c) Borrowing

- Spreadsheets and reconciliation of all borrowing capital sums and interest
- Cedar screen print of outstanding borrowing as at 31st March
- Sample of paperwork to show proper documentation of deals
- Loan Certificates

d) Supranational Bonds

- Details of bonds held
- Reconciliation of interest and capital sums
- Regular faxes from custodian

e) Bank Accounts & Reserve Accounts

- Monthly reconciliation
- Bank statements
- Bank certificates

TMP 8 CASH AND CASH FLOW MANAGEMENT

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 below.

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

The Principal Accountant – Exchequer prepares the monthly cash flow statement and oversees the Insurance and Accounting Technician's preparation of 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 – Exchequer also prepares a long-term cash flow forecast covering the current financial year and the next three financial years.

8.2 CONTENT AND FREQUENCY OF CASH FLOW BUDGETS

Daily for major items of cash flow over £20,000 and monthly to take into account creditors, debtors etc. to show a longer term cash flow.

8.3 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

8.4 BANK STATEMENTS PROCEDURES

Bank statements are received daily and reconciled to the ledger by the Management Accountant.

8.5 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

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.

8.6 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS

Debtors are managed by the Exchequer Services team and reported annually for external purposes and more regularly for internal management information. Creditors are monitored monthly and reported to monitor target payment dates as part of the Finance Service Standards.

8.7 PROCEDURES FOR BANKING OF FUNDS

Cash and cheques are received daily in the Incomes Team and are collected daily by Loomis for secure delivery to the bank.

8.8 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

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 involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed below.

9.1 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

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. It will ensure that staff involved in this area are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed below.

SSDC does not accept loans from individuals. All loans are obtained from the PWLB or from authorised institutions under the Banking Act 1987: (the names of these institutions appeared on the Bank of England quarterly list of authorised institutions until 1.12.2001 when the Financial Services Authority (FSA) took over the responsibility for maintaining a register of authorised institutions. This register can be accessed through their website on www.fsa.gov.uk).

Whilst the Council is not directly required to implement the requirements of the Money Laundering Regulations 2007 (SI 2007 number 2157), which replaced the Money Laundering Regulations 2003 (SI 2003 number 3075) with effect from 15 December 2007, (except through this TMP), the implications of the Terrorism Act 2000, the Anti-Terrorism, Crime & Security Act 2001 and the Proceeds of Crime Act 2002 place an onus of responsibility on individuals associated with treasury process to consider its implications.

Suspicion of any money laundering activity, fraud or use of the proceeds of crime is to be report to the Money Laundering Reporting Officer (MLRO), currently the Assistant Director – Finance & Corporate Services.

9.2 METHODOLOGY FOR IDENTIFYING SOURCES OF DEPOSIT.

As with loans above, the authority for institutions to receive deposits from the Council is derived from the organizations appearance on a list of approved sources produced by the FSA. An entry on the list is a demonstration of the organisations suitability to accept deposit subject to appropriate credit screening.

TMP 10 STAFF TRAINING AND QUALIFICATIONS

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 responsible officer will recommend and implement the necessary arrangements. The present arrangements are detailed in the schedule to this document.

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.

10.1 DETAILS OF APPROVED TRAINING COURSES

As yet no courses have been designated as 'approved' for the purposes of determining qualification to work within Treasury Management. All courses offered by colleges, independent organisations shall be judged on their respective merits and relevance to the needs of the Financial Services Unit.

10.2 RECORDS OF TRAINING RECEIVED BY TREASURY STAFF

Individual Personal Development Plans are held, and contain details of training, courses and seminars undertaken by an officer. However, in general several officers to date have received training via the following arrangements:

- As part of their professional accountancy qualification
- Lectures and seminars provided by external agencies, e.g. Arlingclose, subject to the provisions of 10.1 above.
- Relevant technical and professional journals.

10.3 CAREER DEVELOPMENT / SUCCESSION ARRANGEMENTS

All officers are encouraged to develop their respective careers and those who are qualified accountants have an obligation towards Continuous Professional Development (CPD). This

Council also has a policy of continuous Staff Development Reviews. This is an opportunity for the review of development needs and targets.

10.4 APPROVED QUALIFICATIONS FOR TREASURY STAFF

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

10.5 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)

1. There is a professional need for the Assistant Director – Finance & Corporate Services to be a member of a CCAB body and to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staffs are appropriately trained.

2. Other staff involved in treasury management activities who are members of a CCAB body must also comply with the SOPP.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in 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 that have been submitted to 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 below.

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

11.1.1 Banking services

a) Service provided by: National Westminster Bank plc
b) Contract commenced 1/7/11 and runs for 3 years until 30/6/14.
c) Cost of service as per the contract in 10/11 £39,833
d) Payments due quarterly in arrears and monthly for the electronic banking service.
e) 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.

11.1.2 Money-broking services

Providers of service:-

Martin Brokers (UK) plc
Prebon Yamane
London Currency Brokers
Tradition UK

11.1.3 Cash/fund management services

None

11.1.4 Consultants'/advisers' services

a) Name of supplier of service – Arlingclose Ltd.

b) Contract commenced 1 March 2010 and expires upon 28th February 2013, with the option to extend for a further two years in accordance with the relevant terms of the agreement

c) Cost of service £25,500 per annum – increasing by 5% plus VAT

d) Payments due annually on 1 April

e) Terms for early termination of the contract:

The Council may terminate the agreement by giving three months notice after 28th February 2013.

11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

See TMP2

TMP 12 CORPORATE GOVERNANCE

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 principles of the Code. This, together with the other arrangements detailed in the schedule to this document, 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.

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

- Treasury Management Strategy
- Treasury Management Practices
- Statement of Accounts
- Council Committee Agendas and Minutes
- Budget Book

12.2 PROCEDURES FOR CONSULTATION WITH STAKEHOLDERS.

The Council carries out public consultation annually as part of its budget process.

9. Date of Next Meeting

The next meeting of the Audit Committee is scheduled to take place on Thursday, 24th November 2011 at 10.00 a.m. in Committee Room 3/4, Council Offices, Brympton Way, Yeovil.