South Somerset District Council

Notice of Meeting

Audit Committee

Making a difference where it counts

Thursday 22 November 2012

10.00 a.m.

Main Committee Room
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, **Anne Herridge** on Yeovil (01935) 462570
Email: anne.herridge@southsomerset.gov.uk

This Agenda was issued on Wednesday 14 November 2012

Ian Clarke, Assistant Director (Legal & Corporate Services)

Beacon Authority
2007-2008 Neighbourhood and Community Champions: The Role of Elected Members
2006-2007 Improving Rural Services Empowering Communities
2005-2006 Getting Closer to Communities

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

INVESTOR IN PEOPLE

Audit Committee Membership

Chairman	Derek Yeomans
Vice-Chairman	Ian Martin
John Calvert	Roy Mills
John Dyke	Terry Mounter
Marcus Fysh	John Richardson
Tony Lock	Colin Winder

South Somerset District Council – Corporate Aims

Our key aims are: (all equal)

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

Members' Questions on Reports prior to the Meeting

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

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 22 November 2012

Agenda

Preliminary Items

1. To approve as a correct record the Minutes of the previous meeting held on 25 October 2012

2. Apologies for Absence

3. Declarations of Interest

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

4. Public Question Time

Items for Discussion ***Page Number***

Audit Committee – 22 November 2012

5. 2012/13 SWAP Internal Audit Quarter 2 Update Report

Head of Service: *Gerry Cox, Head of Internal Audit Partnership*
Lead Officer: *Andrew Ellins, Audit Manager*
Contact Details: *andrew.ellins@southwestaudit.gov.uk*

Purpose of the Report

This report has been prepared for the Audit Committee to review the progress made on the 2012-13 Annual Internal Audit Plan.

Recommendation

To note the progress made.

Background

The Audit Committee agreed the 2012/13 Internal Audit Plan at its February meeting. This is the first quarterly update report to inform the Audit Committee of progress against the plan for April to October 2012.

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

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *None*

APPENDIX A

SOUTH WEST AUDIT PARTNERSHIP

Delivering Audit Excellence

South Somerset District Council

Report of Internal Audit Activity

Quarter 2 Update, 2012/13

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

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Our audit activity is split between:

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

Role of Internal Audit

The Internal Audit service for South Somerset District Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, but also follows the CIPFA Code of Practice for internal audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee in February 2012.

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

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

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer following consultation with Directors, Assistant Directors, Service Managers and External Audit. This year's Audit Plan was reported to the Audit Committee at its meeting in February 2012.

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

Quarter 2 Outturn:

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

Quarter 2 Outturn:

Audit Assignments undertaken in the Quarter

- **Operational Audits**

Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2012/13. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

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

Operational Audits

Operational Audits are a detailed evaluation of a Service’s control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

In Quarter 2 there were 3 Operational audits planned;

- Debt Management
- Energy Management
- Development Control

The Development Control audit provided reasonable assurance and was issued as a final report on the 18th October 2012. At the time of this report, Energy Management was at draft report stage and a full update will be provided within the next report. The Debt Management Review has been deferred to Qtr4.

Quarter 2 Outturn:

Audit Assignments undertaken in the Quarter

- **Key Controls; Finance**

Key Controls, Finance Audits

Key Control Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control.

The Key Control Audits provide assurance over the main financial systems;

Capital Accounting
Council Tax and NNDR
Creditors
Debtors
Housing and Council Tax Benefits
Main Accounting
Payroll
Treasury Management

These audits are always undertaken in Qtr 3 (October to December).

At the time of this report most of the key control audits are in progress and a full update will be provided in the next report for 2012/13.

Quarter 2 Outturn:

Audit Assignments undertaken in the Quarter

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

Key Controls, Main Income Stream Audits

These other Key Control Audits have been performed as South Somerset considers these Services to have a significant impact on the Councils ability to meet its overall budget. These are areas of high and in many cases volatile income streams where poor internal controls could result in material losses.

In Quarter 2 there were three (out of the annual plan of nine) key income stream audits planned;

- Wincanton Sports Centre Income
- Workplace Nursery Income
- Plant Nursery (Horticultural) Income

Wincanton Sports Centre received partial assurance in 2011/12 and the Audit Committee rightly have sought assurance that the risks identified are now being managed and the improved controls recommended by audit have been implemented and are operating effectively. As reported in the Quarter 1 update there were some recommendations that were being implemented and therefore this review was moved to Quarter 2 in order that we could give an accurate assessment over whether the new controls are indeed working. This audit is now at draft report stage and we are pleased to report that improvement has been made. A full update of findings and assurance rating will be provided in the Quarter 3 Update Report.

The Workplace Nursery was delayed to allow for the transfer to the external provider to take place. The current review is in progress and an update will be provided in the next quarterly report.

The Plant Nursery audit objective was to ensure that Plant Nursery Income is well controlled; pricing and fees and charges are set appropriately and all income due is received and banked promptly and securely. A Final Report has been issued verifying that the risks associated with the achievement of this objective have overall been met and we have given reasonable audit assurance.

Quarter 2 Outturn:

Audit Assignments undertaken in the Quarter

- **Governance, Fraud and Corruption Audits**

Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will in some cases enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting these reviews at all of our Client sites.

We reported in the last update that two reviews were still in progress and were to be updated within this report;

- Data Security Breaches
- Fraud and Corruption – Creditors

The Data Security Breaches testing has been completed and it is expected to report Substantial Assurance but at the time of this update report the findings have not been agreed with Management. A full update will be in the next Update Report.

A Final Report has been issued for the Fraud and Corruption review of Creditors and provided Reasonable assurance over the controls tested.

In quarter two there were 2 Governance, Fraud and Corruption audits planed;

- Non Compliance of EU rules
- Fraud and Corruption- Contracts

These audits are still in progress at the time of this report and will be completed in Qtr3.

Quarter 2 Outturn:

Audit Assignments undertaken in the Quarter

- **Information Systems**
- **Special Reviews**

Information Systems

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

There were no IT Audits planned for Quarter 2.

The SWAP IT Manager has recently met with the SSDC ICT Manager to identify IT Risks that would benefit from audit assurance. Audits will be undertaken in Qtr3 and 4, once agreed with the S151 Officer.

Special Reviews

At the request of the Assistant Director – Health and Well-Being and in agreement with the Section 151 Officer, SWAP undertook an independent investigation to provide assurance that the Council had acted fairly and demonstrated an adequate duty of care following an accusation by a member of staff that she felt she was the victim of bullying and harassment. SWAP reported their findings to the Strategic Director – Place and Performance as the Management representative leading the review for the Council.

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

Future Planned Work

This is detailed in Appendix B and is subject to any changes in agreement with the S151 officer.

Conclusions

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

It is not uncommon for audits to be in progress at the end of Quarter 1 as priority is given to finishing off audits in progress from the previous financial year. It is fully expected that when we report the half year position at the end of Quarter 2, we will be able to give a stronger indication of the control environment in 2012/13. Furthermore, the Committee will be aware that in May 2012, SWAP were pleased to provide an Audit Opinion for the Annual Governance Statement for 2011/12 that gave Comprehensive Assurance.

Our approach to the audits for 2012/13 reflects this positive assurance and we are seeking to undertake more challenging and cross-cutting reviews rather than traditional service reviews that we have done over recent years, given that these areas have now proven themselves to have adequate and often good internal controls. We shall continue to give ongoing assurance on key controls, but similarly we can do this with less resource than we have previously.

A list of all audits planned for 2012/13 and their status at the end of Quarter 2 are detailed in Appendix B.

South Somerset District Council Audit Plan Progress 2012/13 - Qtr 2 Update **APPENDIX B**

Audit Type	Audit Title	Quarter	Status	Opinion	No. of recs	⬅ Major - Recommendations - Minor ➡				
						5	4	3	2	1
Follow-Up	Register of Interests - Members	Qtr 1	Complete	Non-Opinion	0	0	0	0	0	0
Governance	Boden Mill Site & Chard Regeneration Scheme Statement of Accounts	Qtr 1	Complete	Non-Opinion	0	0	0	0	0	0
Governance	Yeovil Crematorium and Cemetery Annual Return	Qtr 1	Complete	Non-Opinion	0	0	0	0	0	0
Governance	Data Security Breaches	Qtr 1	Review			0	0	0	0	0
Governance	Fraud and Corruption - Creditors	Qtr 1	Final	Reasonable	5	0	0	5	0	0
Key Income	Goldenstones	Qtr 1	Final	Reasonable	5	0	0	4	1	0
Operational	Yeovil Crematorium and Cemetery	Qtr 1	In Progress			0	0	0	0	0
Key Income	Workplace Nursery Income	Qtr 2	In Progress			0	0	0	0	0
Key Income	Plant Nursery Income	Qtr 2	Final	Reasonable	5	0	0	4	1	0
Operational	Debt Management	Qtr 2	Deferred			0	0	0	0	0
Operational	Energy Management	Qtr 2	Draft	Reasonable	4	0	0	4	0	0
Operational	Development Control	Qtr 2	Final	Reasonable	12	0	0	10	2	0
Key Income	Wincanton Sports Centre Income	Qtr 2	Draft	Reasonable	8	0	0	7	1	0
Governance	Non-compliance with EU rules	Qtr 2	Deferred			0	0	0	0	0
Governance	Fraud and Corruption - Contracts	Qtr 2	In Progress			0	0	0	0	0
Key Income	Licensing Income	Qtr 3				0	0	0	0	0
Follow-Up	Housing Benefit Fraud	Qtr 3				0	0	0	0	0
Governance	Treasury Management Strategies	Qtr 3				0	0	0	0	0
Governance	TEN Risk Management System	Qtr 3				0	0	0	0	0
Key Income	Homelessness Income	Qtr 3				0	0	0	0	0
Key Control, Finance	Capital Accounting	Qtr 3	Review			0	0	0	0	0
Key Control, Finance	Council Tax and NNDR	Qtr 3	In Progress			0	0	0	0	0
Key Control, Finance	Creditors	Qtr 3	In Progress			0	0	0	0	0
Key Control, Finance	Debtors	Qtr 3	In Progress			0	0	0	0	0
Key Control, Finance	Housing Benefit	Qtr 3	In Progress			0	0	0	0	0
Key Control, Finance	Main Accounting	Qtr3	In Progress			0	0	0	0	0
Key Control, Finance	Payroll	Qtr 3	In Progress			0	0	0	0	0
Key Control, Finance	Treasury Management	Qtr 3				0	0	0	0	0
Operational	Lean Process Key Control Post Review	Qtr 4				0	0	0	0	0
Follow-Up	Previous Quarter Partial Assurances	Qtr 4				0	0	0	0	0
Governance	Change Management	Qtr 4				0	0	0	0	0
Governance	Asset Management Planning	Qtr 4				0	0	0	0	0
Governance	Fraud and Corruption - Expenses	Qtr 4				0	0	0	0	0
Key Income	Car Parks Income	Qtr 4				0	0	0	0	0
Key Income	Octagon Theatre Income	Qtr 4				0	0	0	0	0
Key Income	Section 106 Agreements Income	Qtr 4				0	0	0	0	0
Key Income	Careline Income	Qtr 4				0	0	0	0	0
IT Audits	To be Agreed	Qtr 3,4				0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

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

Categorisation Of Recommendations

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

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4: Important findings that need to be resolved by management.
Priority 3: The accuracy of records is at risk and requires attention.
Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

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

Audit Committee – 22 November 2012.

6. Treasury Management Performance to September 2012

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

Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the six months ended 30th September 2012. 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 2012.
   - Note the position of the individual prudential indicators for the six-month period ended 30th September 2012.
   - Carry out the mid-year review of the Treasury Management Strategy and recommend it to Council. (Strategy attached with amendments highlighted)

The Investment Strategy for 2012/13

3. The Treasury Management Strategy for 2012/13 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

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

5. Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6. With short term interest rates remaining lower for even longer than anticipated, our investment strategy will typically result in the lengthening of investment periods, where cash flow permits, in order to lock into higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

7. In order to diversify the authority's investment portfolio which is largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return.

8. Money Market Funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and it will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

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).

Interest Rates 2012/13

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

11. Our advisors are forecasting that rates will remain low for an extended period, as shown below;

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
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

Investment Portfolio

12. The table below shows the Council's overall investments as at 30th September 2012:

	Value of Investments at 01.04.12 £	**Value of Investments at 30.09.12 £**	**Fixed/ Variable Rate**
Investments advised by Arlingclose			
Euro Sterling Bonds	4,182,407		Fixed
World Bonds	3,035,190	3,022,352	Fixed
Certificates of Deposit		4,501,118	Variable
Euro Sterling Bonds	5,985,000	5,985,000	Variable
Total	**13,202,597**	**13,508,470**	
Internal Investments			
Short Term Deposits (Banks)	8,000,000	25,000,000	Variable
Short Term Deposits (Other LA's)	14,000,000	7,000,000	Variable
Short Term Deposits (DMADF)			Variable
Money Market Funds & Business Reserve Accounts	3,710,000	1,210,000	Variable
Total	**25,710,000**	**33,210,000**	
TOTAL INVESTMENTS	**38,912,597**	**46,718,470**	

Returns for 2012/13

13. The returns to 30th September 2012 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
Euro Sterling Bonds (Fixed)	5	
World Bonds (Fixed)	12	
Certificate of Deposits (CDs)	11	
Euro Sterling Bonds (Variable)	25	
Total	**53**	**0.86%**
Internal Investments		
Short Term Deposits	119	
Money Market Funds & Business Reserve Accounts	27	
Total	**146**	**0.80%**
Other Interest		
Miscellaneous Loans	6	
Total	**6**	
TOTAL INCOME TO 30TH SEPTEMBER 2012	**205**	**0.81%**
PROFILED BUDGETED INCOME	**254**	
FORECAST DEFICIT FOR YEAR END	**151**	
BENCHMARK RATE OF RETURN		**0.48%**

14. The table above shows investment income for the year to date compared to the profiled budget. The annual budget is set at £507,030. Current estimates are predicting an underachievement of income to the value of £150,890. This shortfall will be covered by the Treasury Management Reserve, the balance of which is £500,000.

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

Investments

16. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13. New investments can be made with the following institutions:

- Other Local Authorities;
- AAA-rated Money Market Funds;
- Certificates of Deposit (CDs) and Term Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australian, Canadian and American);

- T-Bills and DMADF (Debt Management Office);
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank;
- Pooled funds (collective investment schemes) meeting the criteria in SI 2004 No 534 and subsequent amendments.

17. The graph shown in Appendix A shows the performance of the in-house Treasury team in respect of all investments for the quarter ending 30th September 2012 in comparison to all other clients of Arlingclose.

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

Borrowing

19. An actual overall borrowing requirement (CFR) of £9.4 million was identified at the beginning of 2012/13. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 30th September 2012 the Council had no external borrowing.

Breakdown of investments as at 30th September 2012

Date Lent	Counterparty	Amount	Rate	Maturity Date
06-Aug-12	Barclays Bank Plc	1,000,000	0.68%	12-Nov-12
31-Jan-12	Nottingham City Council	2,000,000	0.80%	29-Jan-13
13-Mar-12	Corby Borough Council	2,000,000	0.80%	12-Mar-13
01-Aug-12	Bank of Scotland	2,000,000	1.35%	9-Nov-12
22-Aug-12	Nationwide Building Society	1,000,000	0.55%	30-Nov-12
29-Aug-12	Barclays Bank Plc	1,000,000	0.63%	4-Dec-12
31-May-12	Newcastle City Council	3,000,000	0.72%	30-May-13
04-Sep-12	Barclays Bank Plc	1,000,000	0.63%	12-Dec-12
07-Jun-12	National Australia Bank	2,000,000	0.60%	7-Dec-12
04-Jul-12	Nationwide Building Society	1,000,000	0.60%	4-Oct-12
06-Jul-12	Commonwealth Bank of Australia	5,000,000	0.52%	7-Jan-13
09-Jul-12	Barclays Bank Plc	1,000,000	0.80%	9-Oct-12
09-Jul-12	Nationwide Building Society	1,000,000	0.60%	9-Oct-12
12-Jul-12	National Australia Bank	1,000,000	0.40%	12-Oct-12
12-Jul-12	National Australia Bank	2,000,000	0.55%	14-Jan-13
31-Aug-12	IPA SCB TD Incoming (Santander)	1,000,000	0.94%	2-Oct-12
02-Aug-12	National Australia Bank	1,000,000	0.55%	2-Aug-13
02-Aug-12	Nordea Bank (Finland)	2,000,000	0.60%	2-Nov-12
03-Aug-12	Bank of Scotland	2,000,000	1.35%	5-Nov-12
	Ignis Money Market Fund*	80,000	0.62%	
	Prime Rate Money Market Fund*	1,130,000	0.63%	
	International Bank for Reconstruction and Development (the World Bank)	2,014,080	0.84%	10-Dec-13

	International Bank for Reconstruction and Development (the World Bank)	1,008,272	0.71%	10-Dec-13
	Eurobond Floating Rate Note	5,985,000	SONIA+ 0.35%	18-Mar-14
	Certificate of Deposit	1,500,227	0.83%	14-Jan-13
	Certificate of Deposit	3,000,891	0.97%	31-Mar-13
		46,718,470		

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

Prudential Indicators – Quarter 1 monitoring

Background:

20. In March 2012, Full Council approved the indicators for 2012/13, 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:

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

	2012/13 Original Estimate £'000	**Expected Outturn £'000**	**2012/13 Variance £'000**	**Reason for Variance**
Approved capital schemes	4,059	5,732	1,673	Slippage from previous years makes up the majority of the variance as well as new allocations in year and transfers into the main programme from the reserve schemes
Reserves	1,279	2,927	1,648	The variance is due to slippage from last financial year into this financial year and new allocation of monies
Total Expenditure	**5,338**	**8,659**	**3,321**	

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

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

23. 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	2012/13 Original Estimate £'000	Expected Outturn £'000	2012/13 Variance £'000	Reason for Variance
Financing Costs*	(397)	(242)	155	We are currently predicting an underachievement of investment income of £151k
Net Revenue Stream	16,577	17,162	585	Carry forwards of £497k and £74k for Evening/Sunday Car parking charges built into the budget
%*	**(2.4)**	**(1.4)**	**1.0**	

*figures in brackets denote income through receipts and reserves

24. 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:

25. 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:

	2012/13 Revised Estimate £'000	Expected Outturn £'000	2012/13 Variance £'000	Reason for Variance
Opening CFR	9,506	9,506	0	
Capital Expenditure	4,059	8,671	4,612	See explanations for indicator 1 above
Capital Receipts*	(3,650)	(5,732)	(2,082)	Slippage of schemes approved in previous years
Grants/Contributions*	(409)	(2,939)	(2,530)	Reprofiling of income expected in future years
Minimum Revenue Position (MRP)	(125)	(124)	1	Roundings
Additional Finance Leases	0	0	0	
Closing CFR	**9,381**	**9,382**	**1**	

*Figures in brackets denote income through receipts or reserves. The original allocation of Capital Receipts and Grants/Contributions were transposed in the Treasury Management Strategy Statement.

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

26. 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.

	2012/13 Revised Estimate £'000	2012/13 Qtr 2 Actual £'000	2012/13 Variance £'000	Reason for Variance
Net Borrowing	(36,014)	(45,468)	(9,454)	The estimate is a prediction of the year end balance whilst quarter 2 is always higher as we are 6 months into the 10 month council tax collection cycle
CFR	9,381	9,382	1	

27. 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:

28. 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.

	2012/13 % Limit	2012/13 Qtr 2 Actual %	2012/13 Variance %	Reason for Variance
Fixed	80	6.5	(73.5)	Within limit
Variable	100	93.5	(6.5)	Within limit

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

	2012/13 % Limit	2012/13 Qtr 2 Actual %	2012/13 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

30. 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:

31. 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	2012/13 Maximum Limit £'000	2012/13 Qtr 2 Actual £'000	2012/13 Expected Outturn £'000	Reason for Variance
Between 1-2 years	25,000	9,007	0	Within limit
Between 2-3 years	20,000	0	0	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

32. 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:

33. The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

	2012/13 Estimate £'000	2012/13 Qtr 2 Actual £'000	2012/13 Variance £'000	Reason for Variance
Outstanding Borrowing (at nominal value)	0	0	0	
Other long-term liabilities (at nominal value)	196	258	62	Additional Leases taken out since setting the budget
Gross Debt	**196**	**258**	**62**	
Less: Net Investments	**(36,014)**	**(43,943)**	**(7,929)**	
Net Debt	**(35,818)**	**(43,685)**	**(7,867)**	

The figures above described as net debt actually represent net investments.

Prudential Indicator 8 – Credit Risk:

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

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

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

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

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

Prudential Indicator 9 - Actual External Debt:

35. 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 31/03/2012	**£'000**
Borrowing	0
Other Long-term Liabilities (Finance Leases)	383
Total	**383**

Prudential Indicator 10 - Authorised Limit for External Debt:

36. 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.

	2012/13 Estimate £'000	**2012/13 Qtr 2 Actual £'000**	**2012/13 Variance £'000**	**Reason for Variance**
Borrowing	11,000	0	(11,000)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	1,000	258	(742)	Within limit
Total	**12,000**	**258**	**(11,742)**	

Prudential Indicator 11 – Operational Boundary for External Debt:

37. 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.

	2012/13 Estimate £'000	2012/13 Qtr 2 Actual £'000	2012/13 Variance £'000	Reason for Variance
Borrowing	9,200	0	(9,200)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	800	258	(542)	Within limit
Total	**10,000**	**258**	**(9,742)**	

Prudential Indicator 12 - Maturity Structure of Fixed Rate borrowing:

38. 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 2 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 13 - Incremental Impact of Capital Investment Decisions:

39. 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	2012/13 Original Estimate £
Decrease in Band D Council Tax	0.34

Prudential Indicator 14 - Adoption of the CIPFA Treasury Management Code:

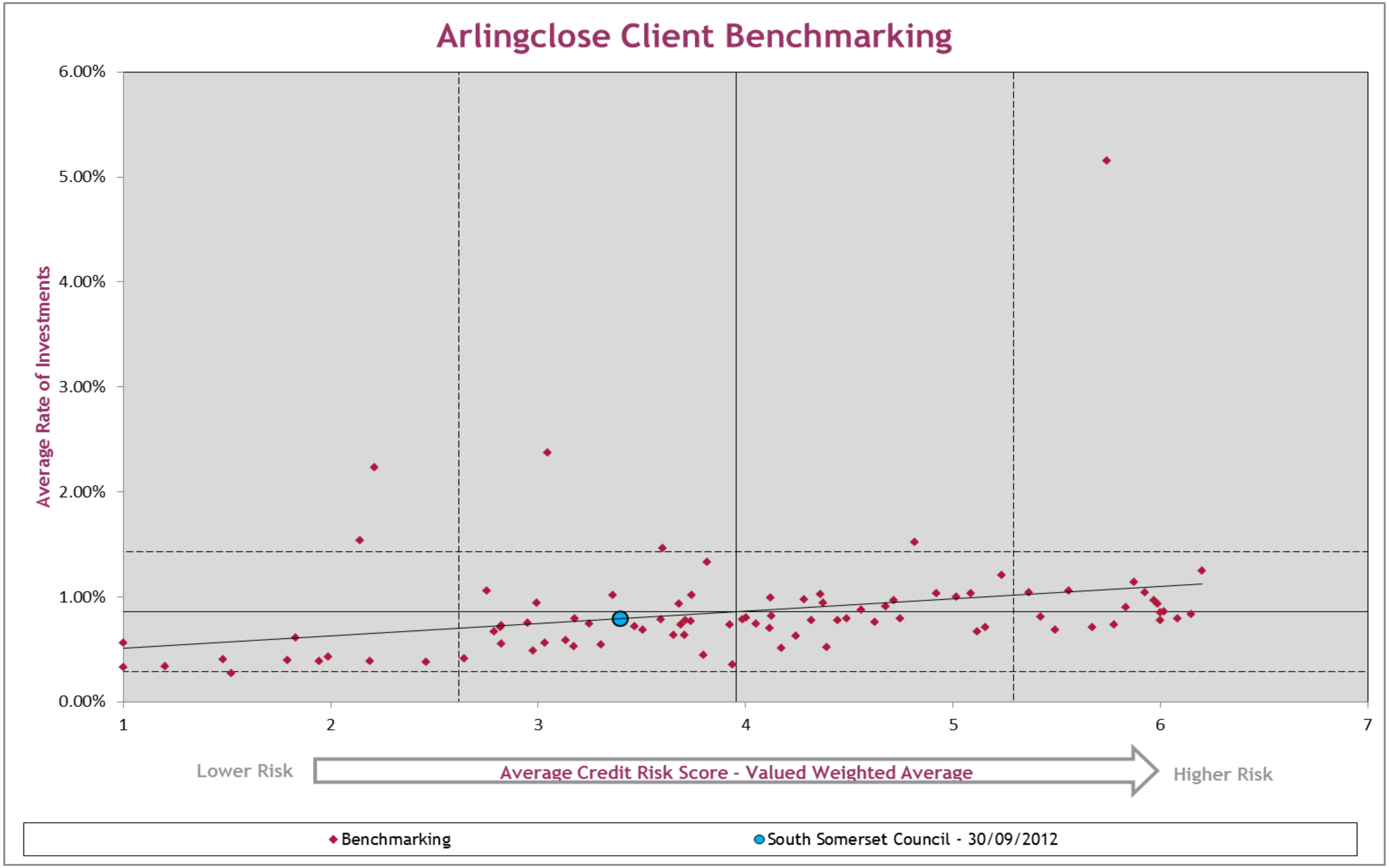
40. This indicator demonstrates that the Council has adopted the principles of best practice.

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

41. 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


Arlingclose Client Benchmarking
Average Rate of Investments
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
1
2
3
4
5
6
7
Lower Risk
Average Credit Risk Score - Valued Weighted Average
Higher Risk
Benchmarking
South Somerset Council - 30/09/2012

Appendix 1

South Somerset DC
Treasury Management Strategy Statement and Investment Strategy 2012/13

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") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

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 adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.4 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activies

- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.5 Full Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

1.6 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to the Assistant Director (Finance and Corporate Services) who will act in accordance with the organisation's policy statement and TMPs and CIPFA's standard of Professional Practice on Treasury Management.

1.7 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

1.8 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.9 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

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

1.11 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

1.12 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. <u>Balance Sheet and Treasury Position</u>

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:

	31/03/12 Actual £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000	31/03/15 Estimate £'000
CFR	9,506	9,381	9,284	9,195
Usable Capital Receipts	(37,301)	(30,455)	(29,489)	(29,579)
Balances & Reserves	(10,002)	(8,398)	(9,575)	(8,267)
Net Balance Sheet Position	**(37,797)**	**(29,472)**	**(29,780)**	**(26,651)**

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 underlying need to borrow and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements.

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 2012/13 is nil and for interest receipts is £508,820

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 in response to evolving economic, political and financial events.

4. Borrowing Requirement and Strategy

4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in appendix C indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial position.

4.2 As indicated in the following table, the authority has a gross borrowing requirement of £9m in 2012/13 but has sufficient balances and reserves to avoid the need for external borrowing. By essentially lending its own surplus funds to itself the Authority is able to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances

	31/03/12 Actual £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000	31/03/15 Estimate £'000
Capital Financing Requirement (CFR)	9,502	9,309	9,213	9,123
Less: Existing Profile of Borrowing and Other Long Term Liabilities	(389)	(196)	(100)	(10)
Cumulative Maximum External Borrowing Requirement	(9,113)	(9,113)	(9,113)	(9,113)
Capital Receipts, Balances & Reserves	(47,303)	(38,853)	(39,064)	(37,846)
Cumulative Net Borrowing Requirement (Investments/ Call on capital receipts)	**(47,303)**	**(38,853)**	**(39,064)**	**(37,846)**

4.3 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.

4.4 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
- Leasing

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

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

5. Investment Policy and Strategy

Investment Policy

5.1 In accordance with Investment Guidance issued by the CLG and best practice this Authority's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yields earned on investments is important but are secondary considerations.

Annual Investment Strategy

5.2 Investments are categorised as 'Specified' or 'Non Specified' investments within the investment guidance issued by the CLG.

5.3 Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else. The types of investments that will be used by the Authority and whether they are specified or non-specified are in Appendix D.

5.4 A number of changes have been implemented to investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. This now means that from 1st April 2012, the accounting of any corporate bonds which we may purchase after this date will be classified as a non-capital investment. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

5.5 The Authority and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparts; AA+ or equivalent for non UK sovereigns). This is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay

Any institution can be suspended or removed should any of the factors identified above give rise to concern. The Countries and institutions that meet the criteria for term deposits, Certificate of Deposit (CDs) and call accounts are included in Appendix D

Investment Strategy

5.6 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

5.7 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

5.8 Money Market Funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Authority will also seek to diversify any exposure by utilising more than one MMF. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

5.9 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.

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

5.10 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)

Investments managed externally

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

5.12 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

5.13 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. 2012/13 MRP Statement

Background:

7.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Statutory Instrument 2008/414] place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such guidance under section 21(1A) of the Local Government Act 2003.

7.2 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.

7.3 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.

MRP Options:

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

Option 1 – Regulatory Method:

7.5 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:

7.6 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:

7.7 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.

7.8 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.

7.9 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.

7.10 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.

7.11 In instances where central government permits revenue expenditure to be capitalised, the Statutory Guidance sets out the number of years over which the charge to revenue must be made.

Option 4 - Depreciation Method:

7.12 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 2012/13:

7.13 It is proposed that for 2012/13 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.

7.14 MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

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.

The Use of Financial Instruments for the Management of Risks

Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Council does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	31/03/11 Actual £'000	31/03/12 Actual £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000	31/03/15 Estimate £'000
External Borrowing:					
Long-term liabilities - Finance Leases	301	389	196	100	10
Total External Debt	**301**	**389**	**196**	**100**	**10**
Investments: *Managed in-house*					
• Deposits and monies on call and Money Market Funds	20,000	25,710	26,987	31,338	29,413
• Supranational bonds	13,538	13,203	9,027	0	0
• Corporate bonds	5,195	0	0	0	0
Total Investments	**38,733**	**38,913**	**36,014**	**31,338**	**29,413**
(Net Borrowing Position)/ Net Investment position	**38,432**	**38,524**	**35,818**	**31,238**	**29,403**

APPENDIX B

PRUDENTIAL INDICATORS 2012/13 TO 2014/15

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 2011/12, 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 2010/11 and 2011/12 and the estimates of capital expenditure to be incurred for the current and future years are:

	2010/11 Actual £'000	**2011/12 Actual £'000**	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**
Approved capital schemes	5,812	3,837	3,526	390	30
Reserve schemes	2,461	2,934	1,279	600	0
New Schemes for 2012/13 start	0	0	533		
Total Expenditure	**8,273**	**6,771**	**5,338**	**990**	**30**

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 2010/11 and 201/11/12 are:

Portfolio	2010/11 Actual £'000	2011/12 Actual £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Financing Costs*	(1,084)	(801)	(397)	(261)	(232)
Net Revenue Stream	20,716	17,345	16,577	16,687	16,238
%*	**(5.2)**	**(3.9)**	**(2.4)**	**(1.6)**	**(1.4)**

*Figures in brackets denote income through receipts or reserves.

The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. 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 interest earnings on investments have reduced at a faster rate than the Net Revenue Stream. This is because capital expenditure has been incurred (reducing balances held in capital receipts) and the rate of interest that we can achieve on our investments has drastically fallen due to maturities and early redemptions of Supranational bonds.

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:

	2010/11 Actual £'000	2011/12 Actual £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Opening CFR	9,461	9,415	9,506	9,381	9,284
Capital Expenditure	5,812	3,837	3,526	390	30
Capital Receipts*	(2,734)	(2,706)	(3,117)	322	93
Grants/Contributions*	(3,078)	(1,131)	(409)	(712)	(123)
MRP	(208)	(177)	(125)	(97)	(89)
Additional Leases taken on during the year	162	268	0	0	0
Closing CFR	**9,415**	**9,506**	**9,381**	**9,284**	**9,195**

*Figures in brackets denote financing through receipts or reserves.

As a result of agreeing a capital programme year by year, and the fact that we anticipated a large income stream from Lufton 2000, the current position is showing an abnormal contribution to capital receipts in 2013/14 and 2014/15 (as opposed to the usual funding from capital receipts).

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.

	2010/11 Actual	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate

	£'000	£'000	£'000	£'000	£'000
Net Borrowing*	(37,936)	(39,551)	(36,014)	(31,338)	(29,413)
CFR	9,414	9,506	9,381	9,284	9,195

*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.

	2010/11 % Actual	2011/12 % Actual	2012/13 % Limit	2013/14 % Limit	2014/15 % Limit
Fixed	32.9	18.6	80	80	80
Variable	67.1	81.4	100	100	100

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

	2010/11 % Actual	2011/12 % Actual	2012/13 % Limit	2013/14 % Limit	2014/15 % 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	2010/11 Actual £'000	2011/12 Actual £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Between 1-2 years	3,218	9,020	25,000	25,000	25,000
Between 2-3 years	6,000	0	20,000	20,000	20,000
Between 3-4 years	1,174	0	10,000	10,000	10,000
Between 4-5 years	0	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 2010/11 and 2011/12 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 – Gross and Net Debt:

The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

	2011/12 Actual £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Outstanding Borrowing (at nominal value)	0	0	0	0
Other long-term liabilities (at nominal value)	389	196	100	10
Gross Debt	**389**	**196**	**100**	**10**
Less: Net Investments	**(39,551)**	**(36,014)**	**(31,338)**	**(29,413)**
Net Debt	**(39,162)**	**(35,818)**	**(31,238)**	**(29,403)**

Prudential Indicator 8 – Credit Risk:

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

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

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

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

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

Prudential Indicator 9 - 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 31/03/2012	**£'000**
Borrowing	0
Other Long-term Liabilities	389
Total	**389**

Prudential Indicator 10 - 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 2010/11 and 2011/12 show that this limit has not been required. 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.

	2010/11 Actual £'000	**2011/12 Actual £'000**	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**
Borrowing	0	0	11,000	11,000	11,000
Other Long-term Liabilities	301	389	1,000	1,000	1,000
Total	**301**	**389**	**12,000**	**12,000**	**12,000**

Prudential Indicator 11 – 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.

	20010/11 Actual £'000	**2011/12 Actual £'000**	**2012/13 Estimate £'000**	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**
Borrowing	0	0	9,200	9,200	9,200
Other Long-term Liabilities	301	389	800	800	800
Total	**301**	**389**	**10,000**	**10,000**	**10,000**

Prudential Indicator 12 - 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	2010/11 % Actual	2011/12 % Actual	Lower Limit %	Upper Limit %
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100
40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed 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 13 - 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	2011/12 Approved £	2012/13 Approved £	2013/14 Estimate £	2014/15 Estimate £
Decrease in Band D Council Tax	0.20	0.34	0.33	0.33

Prudential Indicator 14 - 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

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
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
3-month LIBID													
Upside 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
Central case	0.55	0.55	0.60	0.60	0.60	0.70	0.70	0.70	0.75	0.75	0.75	0.75	0.75
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
1-yr LIBID													
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	1.10	1.10	1.25	1.25	1.25	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
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
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	0.80	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20
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	0.50	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	1.90	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20
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	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.75	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50-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	3.25	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

- Arlingclose believe that it could be 2016 before official interest rates rise. The US Federal Reserve has signalled it will keep interest rates "at exceptionally low levels" until 2015
- More QE is expected from the Bank of England but whether this comes at the November meeting is finely balanced. The UK's safe haven status and minimal prospect of rate rises are expected to keep gilt yields at their lows in the near term.

Underlying Assumptions:

- Consumer Price Inflation has fallen further to 2.2% from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.
- Strong Q3 growth data has provided encouragement with the larger than expected 1% rise in GDP. Consumers are yet to loosen purse strings and businesses are still reticent to make long-term investments. The momentum in growth is unlikely to be sustained whilst uncertainty over the economic outlook persists.
- Having voted to increase asset purchases (QE) by £50bn in July, the MPC will wait to assess its effectiveness and that of the Funding for Lending Scheme (FLS) which started in August. The policy decision at the November MPC meeting will be a close call and the Monetary Policy Committee may defer voting for a further round of QE.

- Despite poor underlying growth resulting in much weaker public finances than forecast and a slower pace of fiscal consolidation, the Chancellor is expected to maintain the deficit-cutting strategy in the Autumn Statement.
- The US Federal Reserve has responded to the slowdown in growth and employment with QE3, with large scale asset purchases of $40bn a month until the outlook for the labour market improves substantially. The US public finance 'fiscal cliff' nevertheless remains a serious risk unless a political solution is reached soon.
- The Eurozone is making slow headway (the European Stability Mechanism is now operational, announcements on the OMT programme, some progress towards banking union) which has placated markets and curtailed some of the immediate risks. A sustainable solution to the Eurozone crisis is some way off as fiscal integration and mutualisation of Eurozone sovereign debt liabilities remain politically unpalatable.

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 and subsequent amendments.

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

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities (including Police 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)
- Commercial Paper
- 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 and subsequent amendments.

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: A3 (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 (including Police Authorities)	No limit
Term Deposits/Call Accounts/CDs	UK	Counterparties rated at least A- Long Term and F1 Short Term (or equivalent)	See following table
Term Deposits/Call Accounts/CDs	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+	See following table
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
LA-Bills	UK	Other UK Local Authorities	No limit
Commercial Paper		Counterparties rated at least A- Long Term and F1 Short Term (or equivalent)	(6,000,000
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	N/A
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)	Will not exceed 0.5% of the net asset value of the MMF
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	£6,000,000

Under the new proposal our Current Counterparty list would be 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	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	£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	

<table>
<tr><td>Term Deposits/Call Accounts</td><td>Canada</td><td>Bank of Nova Scotia</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Canada</td><td>Canadian Imperial Bank of Commerce</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Canada</td><td>Royal Bank of Canada</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Canada</td><td>Toronto-Dominion Bank</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Finland</td><td>Nordea Bank Finland</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>France</td><td>BNP Paribas</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>France</td><td>Credit Agricole CIB
(Credit Agricole Group)</td><td>£6000,000</td><td rowspan="2">£6,000,000</td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>France</td><td>Credit Agricole SA
(Credit Agricole Group)</td><td>£6,000,000</td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>France</td><td>Societe Generale</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Germany</td><td>Deutsche Bank AG</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Netherlands</td><td>ING Bank NV</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Netherlands</td><td>Rabobank</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Netherlands</td><td>Bank Nederlandse Gemeenten</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Sweden</td><td>Svenska Handelsbanken</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>Switzerland</td><td>Credit Suisse</td><td>£6,000,000</td><td></td></tr>
<tr><td>Term Deposits/Call Accounts</td><td>US</td><td>JP Morgan</td><td>£6,000,000</td><td></td></tr>
</table>

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

Non-Specified Investments determined for use by the Council

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 other UK Local Authorities (including Police Authorities) ▪ 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
bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	✓	✓	10 years	£10m	No

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 or subsequent amendments	✓ (on advice from treasury advisor)	✓	These funds do not have a defined maturity date	£5m	Yes

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.

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

Audit Committee – 22 November 2012

7. Audit Forward Plan

Assistant Director: *Donna Parham – Finance and Corporate Services*
Lead Officer: *Anne Herridge, Committee Administrator*
Contact Details: *anne.herridge@southsomerset.gov.uk or (01935) 462570)*

Purpose of the Report

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

Recommendation

Members are asked to:-

Comment upon and note the proposed Audit Committee Forward Plan as attached at Appendix A.

Audit Committee Forward Plan

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

Background Papers: *None*

Audit Committee – 22 November 2012

Audit Committee Forward Plan

Appendix A

Meeting Date	**Agenda Item**	**Lead Officer**
20 Dec 12	No reports to date	
24 Jan 13	Health, Safety & Welfare – Annual report	Pam Harvey
	Review of contract spend using online analysis tools	*Gary Russ*
	Audit Fee Letter	Donna Parham
	Treasury Management Training after Audit Committee	Karen Gubbins
28 Feb 13	Internal Audit – Third Quarter Update	Ian Baker/ Andrew Ellins
	Internal Audit Plan – Approve 2013/14 Plan	Ian Baker/ Andrew Ellins
	Review of Internal Audit Charter	Ian Baker/ Andrew Ellins
	Annual Governance Statement Action Plan	Donna Parham
	Treasury Management - Third Quarterly Monitoring Report	Karen Gubbins
	Treasury Management Strategy Statement and Investment Strategy 2013/14	Karen Gubbins
	Audit Commission Audit Plan	Donna Parham
	Audit Commission – Certification of Claims and Returns: Annual Report	Donna Parham
28 Mar 13	Risk Management Update	Gary Russ

8. Date of Next Meeting

The next scheduled meeting of the Audit Committee will be held on Thursday, 20 December 2012 at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.