South Somerset District Council

Notice of Meeting

Audit Committee

Making a difference where it counts

Thursday 28 November 2013

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 Tuesday 19th November 2013

Ian Clarke, Assistant Director (Legal & Corporate Services)

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
David Norris	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 28 November 2013

Agenda

Preliminary Items

1. **To approve as a correct record the Minutes of the previous meeting held on 24 October 2013**

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 – 28th November 2013

5. 2013/14 SWAP Internal Audit Quarter 2 Update Report

Head of Service: *Gerry Cox, Chief Executive - SWAP*
Lead Officer: *Andrew Ellins, Audit Manager*
Contact Details: *andrew.ellins@southwestaudit.co.uk*

Purpose of the Report

This report has been prepared for the Audit Committee to review the progress made on the 2013/14 Annual Internal Audit Plan.

Recommendation

To note the progress made.

Background

The Audit Committee agreed the revised 2013/14 Internal Audit Plan at its June 2013 meeting. This is the second quarterly update report to inform the Audit Committee of progress against the plan for July to September 2013.

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

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *None*

APPENDIX A

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

South Somerset District Council

Report of Internal Audit Activity

Quarter 2 Update, 2013-14

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 last approved in August 2013.

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

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

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer following consultation with Directors, Assistant Directors, Service Managers and External Audit. This year's Audit Plan was approved by the Audit Committee at its meeting in June 2013, following a revision to the plan approved in February 2013. Since June, a number of minor scheduling changes have been made to the audit plan. An updated list of all audits planned for 2013/14 and their status at the end of Quarter 2 is detailed in Appendix B.

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

Quarter 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 2013/14. 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 two Operational audits planned;

- Town Council Licensing – Discussion Document stage
- Wincanton Sports Centre – Final – Partial assurance.

An update on Town Council Licensing will be available at the next quarterly update.
Management of Wincanton Sports Centre is due to transfer to Leisure East Devon and a follow up audit will be carried out in Quarter 4 to confirm progress made against the agreed action plan.

In addition to these audits, Payroll (scheduled for Qtr 3) has been completed, with Substantial assurance.

Quarter 2 Outturn:

Audit Assignments undertaken in the Quarter

- **Key Controls; Finance**

Quarter 2 Outturn:

Audit Assignments undertaken in the Quarter

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

Key Controls, Finance Audits

In a change to previous years, it was agreed by the Audit Committee to replace Key Control Audits with Operational and Governance Audits for 2013/14. This reflects the positive assurance opinions that have been awarded in relation to Key Control Audits over the last few years, and an appetite to explore other risks and processes at the Council. A complete list of audits planned for the year 2013/14 is detailed in Appendix B.

Key Controls, Main Income Stream Audits

Main income stream audits remain in the plan. However, there were none planned for Quarter 2.

A complete list of audits planned for the year 2013/14 (including the Main Income stream audits, scheduled for quarter 4) is detailed in Appendix B.

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.

There were 4 Governance audits scheduled for Quarter 2.

Audit Area	Opinion	Audit Area	Opinion
Fighting Fraud Locally	Draft **Reasonable**	Council Tax Support Scheme	In progress
Corporate Procurement Cards	Final **Reasonable**	Housing Benefit Fraud Prevention	In progress

In addition to these audits, 3 follow up audits, originally scheduled for Quarter 4 are in progress:

- TEN Risk Management System Follow-Up
- Better Contract Management Follow-Up
- Contract Management Standing Orders Compliance Follow-Up

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 scheduled for Quarter 2.

Special Reviews

I am pleased to report that since April 2013 there have been no irregularities reported to SWAP that have required investigation.

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

Future Planned Work

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

Conclusions

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

The Committee will be aware that in May 2013, SWAP were pleased to provide an Audit Opinion for the Annual Governance Statement for 2012/13 that gave Reasonable Assurance. Work carried out to date in Quarters 1 and 2 largely support this level of assurance for 2013/14.

There have been no significant Corporate Risks identified from the work completed so far in Quarter 2. However, a number of significant findings were identified as part of the review of Wincanton Sports Centre, which received partial assurance. A follow up review is now scheduled for Quarter 4 to monitor the implementation of the recommendations agreed. The service will then by under new management.

Our approach to the audits for 2013/14 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 2013/14 and their status at the end of Quarter 2 are detailed in Appendix B.

South Somerset District Council Audit Plan Progress 2013/14 - Qtr 2 Update

APPENDIX B

Audit Type	Audit Title	Quarter	Status	Opinion	No. of recs	Major - Recommendations - Minor				
						5	4	3	2	1
Governance	Boden Mill and Chard Regeneration Scheme Statement of Accounts	Qtr 1	Final	Non Opinion	0	0	0	0	0	0
Governance	Yeovil Crematorium and Cemetery Annual Return	Qtr 1	Final	Non Opinion	0	0	0	0	0	0
Operational	Fleet Workshop and Stores	Qtr 1	Final	Reasonable	5	0	0	4	1	0
Governance	Fighting Fraud Locally	Qtr 2	Draft	Reasonable	7	0	0	6	1	0
Governance	Corporate Procurement Cards	Qtr 2	Final	Reasonable	10	0	0	7	3	0
Operational	Town Council Licensing Controls	Qtr 2	Discussion Doc		0	0	0	0	0	0
Operational	Wincanton Sports Centre Income	Qtr 2	Final	Partial	35	0	8	0	4	0
Governance	Council Tax Support Scheme	Qtr 2	In Progress		0	0	0	0	0	0
Governance	Housing Benefits Fraud Prevention	Qtr 2	In Progress		0	0	0	0	0	0
Follow-Up	Better Contract Management Follow-Up	Qtr 3	In progress	Non Opinion	0	0	0	0	0	0
Follow-Up	TEN Risk Management System Follow-Up	Qtr 3	In Progress	Non Opinion	0	0	0	0	0	0
Follow-Up	Contract Management Standing Orders Compliance Follow-Up	Qtr 3	In Progress	Non Opinion	0	0	0	0	0	0
IT Audits	Disaster Recovery Planning	Qtr 3	In Progress		0	0	0	0	0	0
Operational	Payroll Service	Qtr 3	Draft	Substantial	2	0	0	2	0	0
Governance	Unofficial Voluntary Funds	Qtr 3			0	0	0	0	0	0
Governance	Social Networking	Qtr 3			0	0	0	0	0	0
Governance	Business Rates - Managing New Risks and Liabilities	Qtr 3			0	0	0	0	0	0
Governance	Bailiffs	Qtr 3			0	0	0	0	0	0
Governance	Debt Management	Qtr 4			0	0	0	0	0	0
Governance	Cash Receipting & Bank Reconciliation (& Cash Collection Contract)	Qtr 4			0	0	0	0	0	0
Governance	Troubled Families Theme	Qtr 4			0	0	0	0	0	0
Governance	Asset Management - Leasing Theme	Qtr 4			0	0	0	0	0	0
Governance	Resource Centre - Contract Compliance	Qtr 4			0	0	0	0	0	0
IT Audits	ICT Strategy	Qtr 4			0	0	0	0	0	0
IT Audits	Event, Incident and Problem Management	Qtr 4			0	0	0	0	0	0
Operational	Careline Income	Qtr 4			0	0	0	0	0	0
Operational	Car Parks Income	Qtr 4			0	0	0	0	0	0
Operational	Goldenstones Income	Qtr 4			0	0	0	0	0	0
Operational	Homelessness Prevention Income	Qtr 4			0	0	0	0	0	0
Operational	Licensing Income	Qtr 4			0	0	0	0	0	0
Operational	Octagon Theatre Income	Qtr 4			0	0	0	0	0	0
Operational	Plant Nursery Income	Qtr 4			0	0	0	0	0	0
Operational	Section 106 Income	Qtr 4			0	0	0	0	0	0
Follow-Up	Wincanton Sports Centre Follow-Up	Qtr 4			0	0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

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

Categorisation Of Recommendations

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

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

Definitions of Risk

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

Audit Committee – 28th November 2013

6. Varying or Discharging Section 106 Planning Obligations

Leader & Deputy Leader:	Ric Pallister & Tim Carroll
Strategic Director:	*Mark Williams, Chief Executive Officer*
Assistant Director:	*Ian Clarke, Legal and Corporate Services*
Lead Officer:	*Ian Clarke, Legal and Corporate Services*
Contact Details:	*ian.clarke@southsomerset.gov.uk or (01935) 462184*

Purpose of the Report

This report to the Audit Committee is to advise members of the process adopted by this Council in the consideration of requests by developers that obligations secured by Section 106 Town & County Planning Act 1990 agreement be discharged or varied subsequent to their completion.

Recommendation:

That members note the report on the process which formed part of the report to the District Executive in April 2011 and which is attached as Appendix 1 and make any suggestions and recommendations that they feel would further improve it.

Introduction

As part of the process of approving planning applications the applicant or developer may be required to enter into a section 106 agreement. These agreements contain certain obligations which attached to the land and require the owner to do certain things. These range from the provision of affordable housing, improvement to highways and on-site play space provision, through to the requirement to make payments for infrastructure provision e.g. education payments. In broad terms the section 106 agreements contain the provisions relating to payments and infrastructure without which the development would be unacceptable. In a strict legal sense, to be enforceable obligations must be necessary to make the development acceptable in planning terms; directly related to the development and fairly and reasonably related in scale and kind to the development.

Report

Although section 106 Town & Country Planning Act 1990 allows the Local Planning Authority to require and enforce these payment and infrastructure obligations, the 1990 Act also contains a provision that entitles the other party to apply to the LPA to vary or delete the section 106 obligations. Although the Act originally provided that the LPA did not need to consider any application if it was submitted within 5 years of the agreement being completed, case law effectively meant that any application submitted at any time needed to be at least properly considered by the LPA. It was also possible for both sides to reach an agreement to vary any obligations at any time. A recent change to legislation in 2013 means that owners can now apply under the statutory framework to have obligations varied or discharged which are contained in agreements entered into on or before 6th April 2010. More recently the 1990 Act has also been amended to include additional provisions which introduce a new application and appeal procedure specifically for the review of planning obligations on planning permissions which relate to the provision of affordable housing. Obligations which include a "requirement relating to the provision of housing that is or is to be made available for people whose needs are not adequately served by the commercial housing market" are within scope of this new procedure.

The new application and appeal procedures do not, in any way, replace existing powers to renegotiate Section 106 agreements on a voluntary basis at any time. The application and appeal procedure will assess the viability of affordable housing requirements only. It will not present the LPA with the opportunity to reopen any other planning policy considerations or reconsider the planning merits of the permitted scheme to which the obligations relate. The Department for Communities and Local Government has provided guidance on how the Government expects these new provisions to be applied and specifically what factors to take into account in assessing viability in the cases to which these new provisions relate. It is important to appreciate that any affordable housing obligations on sites granted in accordance with a Rural Exceptions Site policy are exempt from this specific procedure.

The current process as adopted by this Council for considering any applications to vary or discharge obligations requires that the developer pays for an independent assessment of their viability case. This assessment is carried out by a specialist valuer from the District Valuer's Office who then issues the Council with a formal written report and set of recommendations. Agreeing to a reduction in the obligations should always be the last resort and officers are required to consider other options first as set out in the District Executive report. In the event that a reduction in contributions is the only option to ensure the development goes ahead, then as that reduction is based on market forces and costs at a definite period, it would be usual for a new agreement to be entered into with the developer requiring additional payments to the Council should market conditions improve in the intervening period up to the amount secured by the original obligations.

All applications which require a material change in contributions must be considered by the relevant Area Committee. Whilst some of the information that is considered may be commercially sensitive and not for public view on that basis, members can determine what information they require in order to make the decision being required/requested. It would be possible for the Committee to go into confidential session to consider the most sensitive information whilst at the same time striving to ensure as much of the information and process is open to the public as is reasonably possible. Members are faced with a fine balancing act between ensuring that enough money is recovered to put in the infrastructure generated by the new development whilst at the same time ensuring sites are viable enough to enable the development to proceed within a realistic timescale. If the Council refused an application or did not agree to the full amount of the variations requested then the applicant has the ability to appeal to the Secretary of State.

Financial Implications

There are none resulting from this report.

Legal Implications

These are no specific legal implications resulting from the subject matter of this report as the statutory requirements contained in Town & Country Planning Act 1990 and associated regulations are already being complied with.

Carbon Emissions & Adapting to Climate Change Implications (NI188)

There are no specific environmental implications arising from the subject matter of this report.

Equalities and Diversity Impact

There are no specific equality or diversity implications arising from the subject matter of this report.

Background Papers: *Agenda and minutes of District Executive Committee 7th April 2011*

District Executive – 7th April 2011

6. Section 106 Planning Obligations – Applications to vary or discharge the requirements of a planning obligation

Executive Portfolio Holder:	*Cllr Tim Carroll / Cllr Ric Pallister, Deputy Leader*
Strategic Director:	*Rina Singh, Strategic Director (Place and Performance)*
Assistant Director:	*Martin Woods, Assistant Director (Economy)*
Service Manager:	*David Norris, Development Control Manager*
Lead Officer:	*David Norris, Development Control Manager*
Contact Details:	*David.Norris@southsomerset.gov.uk or (01935) 462382*

Purpose of the Report

To allow members to consider the proposed process for dealing with applications that seek to vary the requirements contained within a completed Section 106 Agreement. Also to provide members with a copy of the Section 106 monitoring report that will be used to provide members with information on a 6 monthly basis and to provide members with information on the process of monitoring Section 106 agreements.

Recommendations

That District Executive:

1) confirm the recommended process for considering applications to vary Section 106 Agreements.

2) note the report and endorse the proposed format of the monitoring pro-forma for Section 106 Planning Obligations (Appendix 1) together with the proposed monitoring process for financial contributions (Appendix 2).

Background

Section 106 agreements are a legal contract within which a developer signs an obligation in connection with the grant of a planning permission. Section 106 agreements are also referred to as planning contributions, legal agreements or planning obligations. Most Section 106's obligate the developer to provide either a financial contribution towards facilities and infrastructure or to provide the infrastructure themselves e.g. construct a new roundabout. The requirement to enter into legal agreement is justified on the basis that without the contribution/infrastructure then the development would be unacceptable.

Section 106A of the Town and Country Planning Act allows a developer to submit an application to vary or delete the requirements of the legal agreement. The applications are known as 'Discharges of Planning Obligations' and are referred to as DPO's. The Local Planning Authority is not obliged to entertain applications to vary Section 106 agreements within the first 5 years after signing however recent case law makes it clear that it would be unreasonable to adopt this approach.

Another significant factor that supports the need for entertaining applications before the five year period is the external environment that can result in a fundamental change in the economics of the development between the time of signing the agreement and the commencement of works on site. Members will be aware of the issue of 'development viability' and the discussions that have taken place as to whether or not a development can meet all of the planning obligations that have been sought. This issue is usually resolved prior to the formal determination of the planning application and all developers are encouraged to go through the 'open book' process prior to signing a Section 106 agreement. There will however be instances when this will not be possible or appropriate and the change to the grant funding that is available to developers is one such example.

Below is described the suggested process by which applications to vary the requirements of Section 106 Agreements (financial contributions)

It is important for members to be aware that the recommended process relates only to financial contributions that are secured through a Section 106 agreement that has already been signed.

It is considered essential to provide a transparent decision making framework that will allow members to consider applications to vary or delete the requirements contained within a Section 106 Agreement. It is suggested that:

- Applicants/developers be entitled to submit applications to vary planning obligations within the 5 year period.
- SSDC require all applications to vary Section 106 agreements to be accompanied by a detailed financial assessment produced by the District Valuer, and paid for by the developer.
- Before making any recommendation, officers fully explore other options for payment of planning contributions e.g. deferred payments, potential selling of affordable units, overage agreements etc.
- All applications to materially vary the amount or nature of financial contribution that is secured through a Section 106 agreements be considered by the relevant area committee and that the relevant portfolio holder be invited to provide comments.

The second element of this report relates to the way in which Section 106 agreements are monitored and managed.

Members will also be aware that internal and external audits have highlighted the need to improve the S106 management process and ensure that a robust monitoring process is in place. Additionally the Audit Committee raised concerns about the process. As a result resources for a S106 Monitoring Officer has been found through the 'Lean' process in Development Management.

The appointment of the Section 106 Officer is enabling us to make significant improvements in the way in which planning obligations are managed. It has been necessary to devise a clear and transparent process that provides a robust framework for the management of all future S106 agreements. As part of this new and transparent process the Section 106 Officer also attended all of the Area Committees earlier this year to introduce himself and the purpose of his role and to ascertain the particular issues that were of interest to members.

Proposed Pro- Forma For Future Section 106 Monitoring Reports and Illustrative Process For Managing Financial Contributions.

Members will find attached at Appendix 1, an example of the pro-forma/report that will be used to update members on the progress/status of Section 106 Agreements. The format of the report takes into account the comments that were received from the Area Committees in response to the initial presentation given by the Section 106 Officer. It was also clear from the Area Committees that they wished to receive this report on a 6 monthly basis whilst having the ability to speak to the Section 106 Officer directly at any time about individual Section 106's.

Members will find attached at Appendix 2, the process by which the management of financial elements of Section 106 agreements are completed. It is considered that this process incorporates all of the necessary controls to ensure that contributions are received and spent in a timely manner in the areas that were identified in the legal agreement.

A further report on existing S106 agreements will be brought forward in due course.

Financial Implications

Failure to properly monitor the collection and spending of planning contributions would have a significant cost implication for the District Council. SSDC will look to recover costs for the processing of the DPO's through fees and charges, and implementing the fee charging schedule that will be introduced in 2012.

Corporate Priority Implications

Impacts on Theme 1 - Increase Economic Vitality and Prosperity and Theme 3 - Improving the Housing Health and Well-being of our citizens.

Carbon Emissions & Adapting to Climate Change Implications (NI188)

No direct new impacts from this consultation.

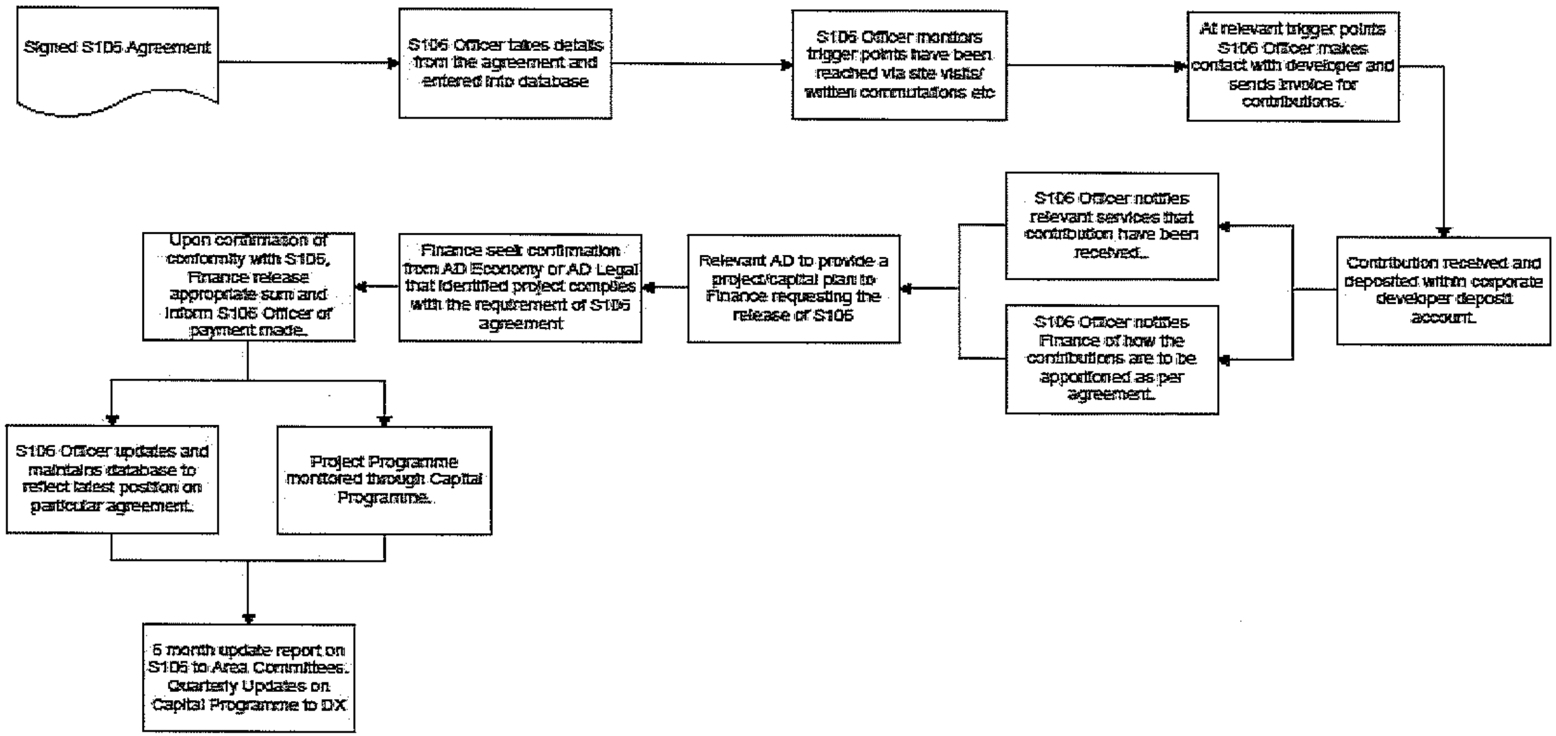
Equality and Diversity Implications

No obvious impact upon equality and diversity.

Background Papers: *Audit Committee reports for January and July 2009 and February and July 2010*

Proposed Process For Monitoring Financial Elements of S106 Agreements

Appendix 2



155. Declarations of Interest (Agenda Item 3)

There were no declarations of interest.

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156. Public Question Time (Agenda Item 4)

There were no questions from members of the public present.

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157. Chairman's Announcements (Agenda Item 5)

The Chairman thanked Members and officers for their support and good wishes during his recent illness.

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158. Section 106 Planning Obligations – Applications to vary or discharge the requirements of a planning obligation (Agenda Item 6)

The Portfolio Holder for Economic and Organisational Development introduced the report, noting that at the current time, developers could only apply to vary conditions of a Section 106 Planning Agreement (S106) five years after signing the agreement. It was now proposed to allow them to make such a request before the 5 year deadline following the outcome of recent case law. It was also proposed to report the progress of S106 Agreements to the relevant Area Committee on a six monthly basis.

The Portfolio Holder for Health, Housing and Spatial Planning advised that the proposal would only have a short operational period as in April 2014, the Community Infrastructure Levy would partially replace S106 Agreements.

During discussion it was noted that:-

- Both the developer and the District Council must mutually agree any variation to a S106 Agreement.
- Both the relevant Ward Members and Parish Councils should be party to the details of any S106 Agreement in the initial stages to give a local perspective.
- Scrutiny Committee would be reviewing S106 Agreements within the next 6 months.
- Area Committees would add transparency to the review of S106 Agreements

At the conclusion of the debate, Members were content to unanimously agree the recommendations of the report.

RESOLVED: That the District Executive:

1. confirmed the recommended process for considering applications to vary Section 106 Agreements;
2. noted the report and endorsed the proposed format of the monitoring pro-forma for Section 106 Planning Obligations (Appendix 1) together with the proposed monitoring process for financial contributions (Appendix 2).

Reason: To agree a process for dealing with applications that seek to vary the requirements contained within a completed Section 106 Agreement.

(David Norris, Development Manager – 01935 462382)
(david.norris@southsomerset.gov.uk)

Audit Committee – 28th November 2013

7. Debt Management Policy

Strategic Director: *Mark Williams, Chief Executive*
Assistant Director: *Donna Parham (Finance and Corporate Services)*
Service Manager: *Amanda Card, Finance Manager*
Lead Officer: *Amanda Card, Finance Manager*
Contact Details: *Amanda.card@southsomerset.gov.uk or 01935 462452*

Purpose of the Report

This report requests that members note the adoption and the impact of the Debt Management Policy.

Recommendations

1. That Audit Committee note that the Debt Management Policy has been adopted by the Council.

2. That Audit Committee note the positive impact that the Debt Management Policy has had on debt levels

Background

South Somerset District Council has a duty to ensure cost effective billing, collection and recovery of all sums due to the Council.

Effective debt management is crucial to the success of any organisation. The Council needs an effective policy to support the maximisation of debt collection in an efficient, consistent and sensitive manner.

The Debt Management Policy sets out the general principles South Somerset District Council will apply to debt management across all services we provide.

The Debt Management Policy was endorsed by Audit Committee members in September 2012 and was approved by District Executive in January 2013. During April 2013 briefing sessions were given to Council employees and the Debt Management Policy was rolled out across the whole of the Council.

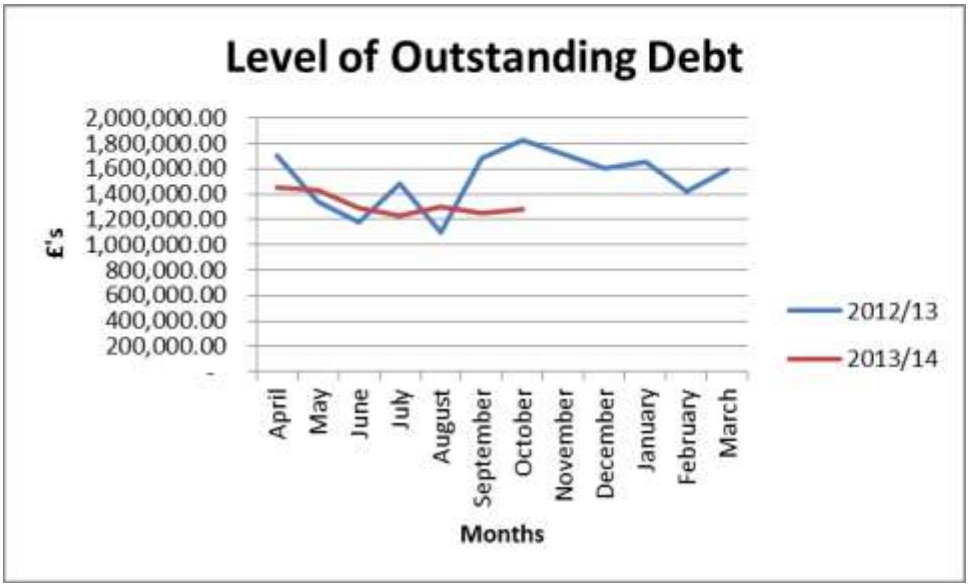
Impact of Implementing the Debt Management Policy

	2012/13	**2013/14**	**% difference**
April	1,703,337	1,446,074	(15%)
May	1,343,297	1,427,363	6%
June	1,175,788	1,285,334	9%
July	1,483,694	1,229,348	(17%)
August	1,095,160	1,295,762	18%
September	1,684,783	1,248,608	(26%)
October	1,822,542	1,279,879	(30%)
Total for Period	**10,308,600**	**9,212,368**	**(11%)**

Figures in brackets represent a reduction.

Please note the figures displayed above relate only to income generated for invoices raised on the financial system and not for Council Tax and Business Rates.

The graph shows that the level of debt has in general fallen, since the Debt Management Policy was rolled out in April 2013. The level of debt has also been maintained.



It is important to note that the level of debt identified above is a cumulative total meaning that any new invoices raised increases the amount of outstanding debt. The graph above shows that not only has new debt been maintained but existing debt is being managed and reduced. This has meant that short term debtor balances have been improved thus improving cashflow.

Future Monitoring

The data that is available for comparative purposes is limited. As data becomes available, Audit Committee will be updated on the impact that the Debt Management Policy has on debt levels. Future monitoring will also include a breakdown per service. This will assist in identifying those services who have issues with collecting debt because of the nature of the service users or because of resource availability within the team to collect debts.

Financial Implications

There were no direct financial implications in approving the Debt Management policy but since being implemented the level of short term debtors has reduced thus improving cashflow.

Background Papers: *Debt Management Policy*
Financial Procedure Rules
Debt Management Policy report to Audit Committee (September 2012)

Audit Committee - 28 November 2013

8. Treasury Management Performance to September 2013

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 2013. 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 2013.
   - Note the position of the individual prudential indicators for the six-month period ended 30th September 2013.
   - Carry out the mid-year review of the Treasury Management Strategy and recommend it to Council. (Strategy attached with the amendments highlighted)

The Investment Strategy for 2013/14

3. The Treasury Management Strategy for 2013/14 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. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved

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. The Authority has evaluated the use of pooled funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Investments in pooled funds will be undertaken based on advice received from Arlingclose Ltd. We are currently investing in the Payden fund, and the CCLA Property Fund, both of which are classified as pooled funds.

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).

Interest Rates 2013/14

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

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

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose 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

Investment Portfolio

13. The table below shows the Council's overall investments as at 30th September 2013:

	Value of Investments at 01.04.13 £	**Value of Investments at 30.09.13 £**	**Fixed/ Variable Rate**
Investments advised by Arlingclose			
World Bonds	3,028,271	3,015,330	Fixed
Certificates of Deposit	8,501,524	8,501,829	Variable
Money Market Fund(Variable Net Asset Value)	1,000,000	1,000,000	
Property Fund		1,005,000	Fixed
Corporate Bonds		6,227,086	Fixed

Floating Rate Notes (FRNs)	5,985,000	6,988,300	Variable
Total	**18,514,795**	**26,737,545**	
Internal Investments			
Short Term Deposits (Banks)	12,000,000	13,000,000	Variable
Short Term Deposits (Other LA's)	5,000,000	1,000,000	Variable
Money Market Funds (Constant Net Asset Value) & Business Reserve Accounts	3,810,000	4,760,000	Variable
Total	**20,810,000**	**18,760,000**	
TOTAL INVESTMENTS	**39,324,795**	**45,497,545**	

Note:
Variable Net Asset Value (VNAV) Money Market Funds - where there is greater than 12 month history of a consistent £1 Net Asset Value although there is a risk you may receive less than the £1 you originally invested. This is monitored closely by Arlingclose before they recommend the use of the fund.
Constant Net Asset Value (CNAV) Money Market Funds – where £1 is invested you receive £1 back on withdrawal.

Returns for 2013/14

14. The returns to 30th September 2013 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
World Bonds (Fixed)	17	
Certificate of Deposits (CDs)	29	
Payden Money Market Fund (VNAV)	5	
Property Fund	20	
Corporate Bonds	12	
Floating Rate Notes (FRNs)	25	
Total	**108**	**0.94**
Internal Investments		
Short Term Deposits	61	
Money Market Funds (CNAV) & Business Reserve Accounts	35	
Total	**95**	**0.69**
Other Interest		
Miscellaneous Loans	8	
Total	**8**	
TOTAL INCOME TO 30th September 2013	**212**	**0.80**
PROFILED BUDGETED INCOME	**157**	
FORECAST SURPLUS FOR YEAR END	**21**	

BENCHMARK RATE OF RETURN 0.41

15. The table above shows investment income for the year to date compared to the profiled budget. The annual budget is set at £313,900. The Treasury Management Reserve balance is £500,000. We currently estimate that the position at the end of the financial year will be an overall favourable variance in the order of £21,100.

16. 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

17. 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 2013/14. New investments can be made with the following institutions:
    - Other Local Authorities;
    - AAA-rated Money Market Funds;
    - Certificates of Deposit (CDs) and Term Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australian, Canadian and American);
    - T-Bills and DMADF (Debt Management Office);
    - Bonds issued by Multilateral Development Banks, such as the European Investment Bank;
    - Commercial Paper
    - Other Money Market Funds and Collective Investment Schemes meeting the criteria in SI 2004 No 534, SI 2007 No 573 and subsequent amendments.

18. 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 2013 in comparison to all other clients of Arlingclose.

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

Borrowing

20. An actual overall borrowing requirement (CFR) of £9.7 million was identified at the beginning of 2013/14. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 30th September 2013 the Council had no external borrowing.

Breakdown of investments as at 30th September 2013

Date Lent	Counterparty	Amount	Rate	Maturity Date
20-Mar-13	Barclays Bank Plc	1,000,000	0.88%	20-Mar-14
12-Dec-12	Barclays Bank Plc	1,000,000	0.98%	12-Dec-13
11-Jan-13	Nationwide Building Society	1,000,000	0.76%	17-Oct-13
17-Jul-13	Barclays Bank Plc	1,000,000	0.85%	17-Jul-14
02-Aug-12	National Australia Bank	1,000,000	0.55%	2-Aug-13
7-May-13	Bank of Scotland	1,000,000	0.80%	7-Nov-13
12-Oct-12	Canadian Imperial Bank of Commerce	1,000,000	0.50%	11-Oct-13
07-Nov-12	Barclays Bank Plc	1,000,000	1.05%	7-Nov-13
12-Aug-13	Nationwide Building Society	1,000,000	0.72%	12-Aug-14
30-Sep-13	Birmingham City Council	1,000,000	0.50%	26-Sep-14
15-Apr-13	Bank of Scotland	1,000,000	0.80%	15-Oct-13
3-Jun-13	Nationwide Building Society	1,000,000	0.70%	3-Jun-14
13-Sep-13	Credit Agricole Corporate & Investment Bank	1,000,000	0.51%	13-Dec-13
2-Jul-13	Bank of Scotland	1,000,000	0.75%	2-Jan-14
	Santander Plc Business Reserve	260,000	0.60%	
	Royal Bank of Scotland Business Reserve	4,500,000	0.70%	
	Payden Money Market Fund*	1,000,000	0.92%	
	International Bank for Reconstruction and Development (the World Bank)	2,009,399	0.84%	10-Dec-13
	International Bank for Reconstruction and Development (the World Bank)	1,005,931	0.71%	10-Dec-13
	Eurobond Floating Rate Note	5,985,000	SONIA+ 0.35%	18-Mar-14
	Rabobank Floating Rate Note	1,003,300	3 month Libor +0.5%	6-Jun-14
	Corporate Bond (SSE)	3,153,600	1.12%	5-Feb-14
	Corporate Bond (General Electric)	1,019,000	0.65%	10-Dec-13
	Corporate Bond (Vodafone)	1,038,750	1.02%	8-Sep-14
	Corporate Bond (E.on)	1,015,736	0.92%	27-Jan-14
	Certificate of Deposit	1,500,336	0.52%	14-Oct-13
	Certificate of Deposit	1,000,150	0.50%	4-Oct-13
	Certificate of Deposit	1,000,297	0.62%	5-Jun-14
	Certificate of Deposit	3,000,452	0.53%	5-Feb-14
	Certificate of Deposit	1,000,297	0.60%	4-Jun-14
	Certificate of Deposit	1,000,297	0.62%	13-Aug-14
	CCLA Property Fund	1,005,000	4.84%	
		45,497,545		

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

Prudential Indicators – Quarter 2 monitoring

Background:

21. In March 2013, Full Council approved the indicators for 2013/14, 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:

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

	2013/14 Original Estimate £'000	**Expected Outturn £'000**	**2013/14 Variance £'000**	**Reason for Variance**
Approved capital schemes	2,140	3,993	1,853	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	1,062	3,228	2,166	The variance is due to slippage from last financial year into this financial year and new allocation of monies
Total Expenditure	**3,202**	**7,221**	**4,019**	

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

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

24. 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	**2013/14 Original Estimate £'000**	**Expected Outturn £'000**	**2013/14 Variance £'000**	**Reason for Variance**
Financing Costs*	(193)	(193)	0	
Net Revenue Stream	17,955	18,282	327	Carry forwards of

				£339k and £25k funding for Empty Homes Officer less £24k Save to Earn Transfer re Public Conveniences and £14k from VR in Democratic Services
%*	**(1.1)**	**(1.1)**		

*figures in brackets denote income through receipts and reserves

25. 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:

26. 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:

	2013/14 Original Estimate £'000	**Expected Outturn £'000**	**2013/14 Variance £'000**	**Reason for Variance**
Opening CFR	9,666	9,666	0	
Capital Expenditure	3,202	5,647	2,445	See explanations for indicator 1 above
Capital Receipts*	(1,744)	(3,993)	(2,249)	Slippage of schemes approved in previous years
Grants/Contributions*	(1,458)	(1,654)	(196)	Re-profiling of income expected in future years
Minimum Revenue Position (MRP)	(121)	(121)	0	
Additional Finance Leases	0	0	0	
Closing CFR	**9,545**	**9,545**	**0**	

*Figures in brackets denote income through receipts or reserves.

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

27. 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.

	2013/14 Original Estimate £'000	2013/14 Qtr 2 Actual £'000	2013/14 Variance £'000	Reason for Variance
Net Borrowing	(38,910)	(43,859)	(4,949)	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	9,545	9,545	0	

28. 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:

29. 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.

	2013/14 % Limit	2013/14 Qtr 2 Actual %	2013/14 Variance %	Reason for Variance
Fixed	80	20.31	59.69	Within limit
Variable	100	79.69	20.31	Within limit

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

	2013/14 % Limit	2013/14 Qtr 2 Actual %	2013/14 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

31. 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:

32. 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	2013/14 Maximum Limit £'000	2013/14 Qtr 2 Actual £'000	2013/14 Expected Outturn £'000	Reason for Variance
Between 1-2 years	25,000	0	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

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

Prudential Indicator 7 – Credit Risk:

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 8 - 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 31/03/2013	**£'000**
Borrowing	0
Other Long-term Liabilities (Finance Leases)	267
Total	**267**

Prudential Indicator 9 - Authorised Limit for External Debt:

36. The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy. Borrowing will arise as a consequence of all the financial transactions of the Council not just arising from capital spending.

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

	2013/14 Estimate £'000	**2013/14 Qtr 2 Actual £'000**	**2013/14 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	267	(733)	Within limit
Total	**12,000**	**267**	**(11,733)**	

Prudential Indicator 10 – Operational Boundary for External Debt:

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

	2013/14 Estimate £'000	**2013/14 Qtr 2 Actual £'000**	**2013/14 Variance £'000**	Reason for Variance
Borrowing	9,200	0	(9,200)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	800	267	(533)	Within limit
Total	**10,000**	**267**	**(9,733)**	

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

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

Maturity structure of fixed rate borrowing	**2011/12 Actual** **%**	**2012/13 Actual** **%**	**2013/14 Qtr 2 Actual** **%**	**Lower Limit** **%**	Upper **Limit** **%**
Under 12 months	0	0	0	0	100
12 months and within 24 months	0	0	0	0	100
24 months and within 5 years	0	0	0	0	100
5 years and within 10 years	0	0	0	0	100
10 years and within 20 years	0	0	0	0	100
20 years and within 30 years	0	0	0	0	100
30 years and within 40 years	0	0	0	0	100
40 years and within 50 years	0	0	0	0	100
50 years and above	0	0	0	0	100

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

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

40. 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 Actual £**	**2013/14 Estimate £**	**2014/15 Estimate £**	**2015/16 Estimate £**
Decrease in Band D Council Tax	0.34	0.47	0.67	0.67

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

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

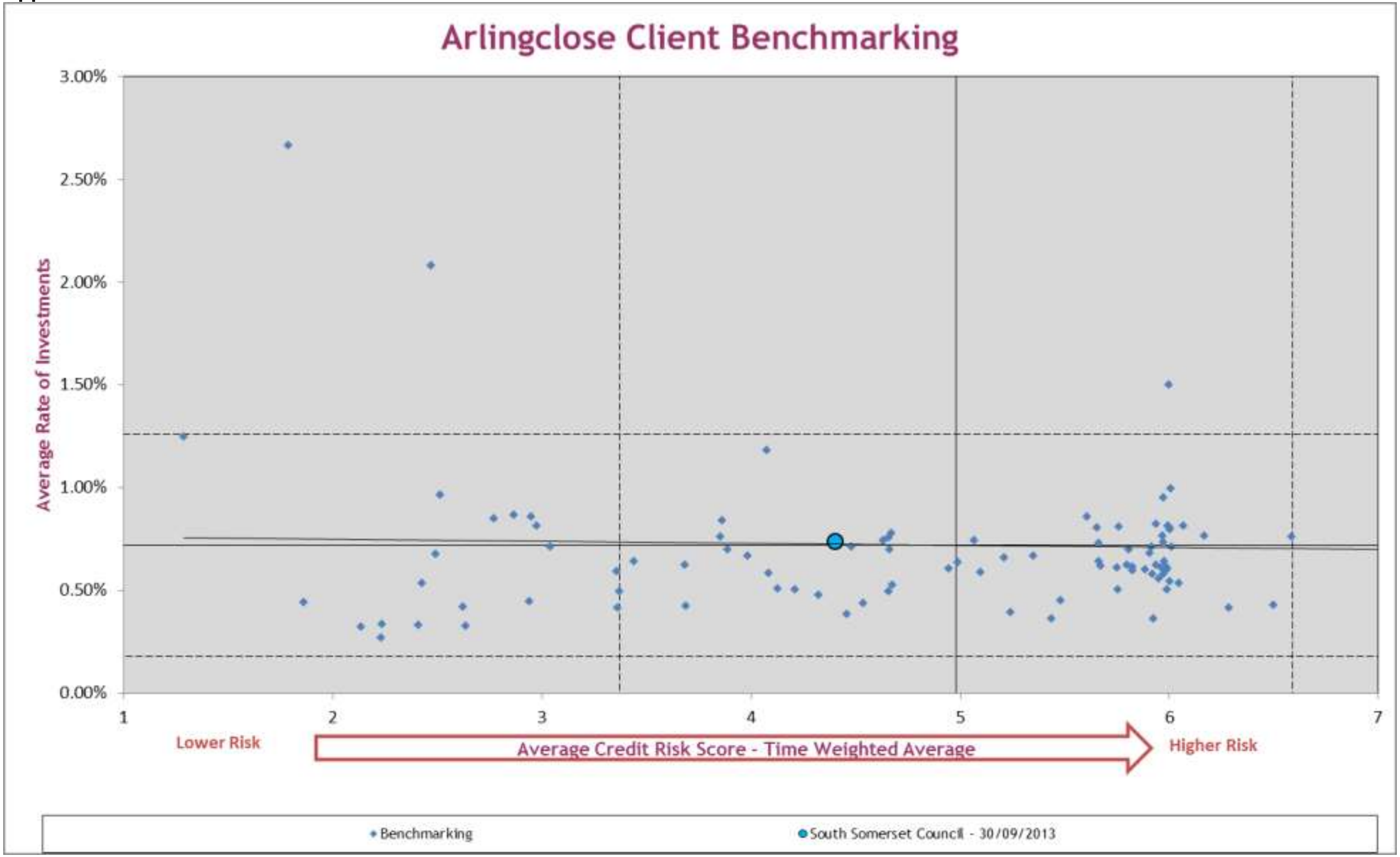
Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18th April 2002.

Conclusion

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

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

Appendix A


Arlingclose Client Benchmarking
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
Average Rate of Investments
1
2
3
4
5
6
7
Lower Risk
Average Credit Risk Score - Time Weighted Average
Higher Risk
Benchmarking
South Somerset Council - 30/09/2013

Appendix 1

South Somerset District Council
Treasury Management Strategy Statement and Investment Strategy 2013/14

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. Balance Sheet and Treasury Position

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

	31/03/13 Outturn £'000	**31/03/14 Estimate £'000**	**31/03/15 Estimate £'000**	**31/03/16 Estimate £'000**
CFR	9,499	9,447	9,332	9,234
Usable Capital Receipts	(37,844)	(29,057)	(29,077)	(29,161)
Balances & Reserves	(10,982)	(6,278)	(6,461)	(6,215)
Net Balance Sheet Position	**(31,145)**	**(25,888)**	**(26,206)**	**(26,142)**

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 2013/14 is nil and for interest receipts is £313,900

3. Outlook for Interest Rates

3.1 The Arlingclose interest rate forecast continues its theme of the last few years, that is, that interest rates will remain low for even longer. The forecast is for official UK interest rates to remain at 0.5% until 2016 given the bleak outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement. Until there is a credible resolution of the problems that stalk the Eurozone – and that resolution requires full-scale fiscal union which faces many significant political hurdles – then the UK's safe haven status and minimal prospect of increases in official interest rates will continue to combine and support the theme within the forecast.

3.2 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix C. The Authority will reappraise its strategies 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 2013/14 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.

	31/03/13 Outturn £'000	31/03/14 Estimate £'000	31/03/15 Estimate £'000	31/03/16 Estimate £'000
Capital Financing Requirement (CFR)	9,499	9,447	9,332	9,234
Less: Existing Profile of Borrowing and Other Long Term Liabilities	(386)	(334)	(219)	(121)
Cumulative Maximum External Borrowing Requirement	(9,113)	(9,113)	(9,113)	(9,113)
Capital Receipts, Balances & Reserves	(48,826)	(35,335)	(35,538)	(35,376)
Cumulative Net Borrowing Requirement (Investments/ Call on capital receipts)	**(48,826)**	**(35,335)**	**(35,538)**	**(35,376)**

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:

- Internal
- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank
- Commercial Banks
- Capital Markets (stock issues, commercial paper and 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.

4.7 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Authority's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A significant narrowing in the spread (e.g. by 0.50%) will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

5. Investment Policy and Strategy

Annual Investment Strategy

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.

5.2 The Authority and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Authority.

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

5.4 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 as follows:

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
AAA-Rated Money Market Funds	✓	×
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	×

5.5 Registered Providers (RPs) have been included within specified and non-specified investments for 2013/14. Investments with RPs will be analysed on an individual basis and discussed with Arlingclose prior to investing.

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

- Published credit ratings for financial institutions. The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent).
- 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 investments are included in Appendix D

5.7 Authority's Banker – The Council banks with National Westminster Bank. At the current time, it does meet the Authority's minimum credit criteria. Even if the credit rating falls below the Authority's minimum criteria, Natwest will continue to be used for short term liquidity requirements (overnight) and business continuity arrangements.

Investment Strategy

5.8 With short term interest rates low for some time, 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.

5.9 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.

5.10 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.

5.11 The Authority has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the

Authority to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

5.12 Investments in pooled funds will be undertaken with advice from Arlingclose Ltd. The Authority's current investments in Pooled Funds are listed in Appendix E; their performance and continued suitability in meeting the Authority's investment objectives are regularly monitored.

5.13 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.

5.14 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)

Policy on use of financial Derivatives

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

5.16 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

5.17 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

5.18 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

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 CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2 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:

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

Option 1 – Regulatory Method:

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

Option 2 – CFR Method:

7.5 This method simplifies the calculation of MRP by basing the charge solely on the authority's CFR but excludes the technical adjustments included in Option 1. The annual MRP charge is set at 4% of the CFR at the end of the preceding financial year. This method can only be used for supported expenditure.

Option 3 – Asset Life Method:

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

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

or

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

7.7 MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational. This enables an MRP "holiday" to be taken in relation to assets which take more than one year to be completed before they become operational.

7.8 The estimated life of the asset will be determined in the year that MRP commences and cannot be revised. However, additional repayments can be made in any year which will reduce the level of payments in subsequent years.

7.9 If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life of the land will be treated as equal to that of the structure, where this would exceed 50 years.

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

Option 4 - Depreciation Method:

7.11 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 2013/14:

7.12 It is proposed that for 2013/14 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.

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

8. Monitoring and Reporting on Treasury Management

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

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

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

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

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

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

9. Other Items

Training

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

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

Treasury Management Advisors

The Council appointed Arlingclose as its Treasury Advisers in 2005. The provision of treasury advisory services was formally re-tendered in autumn 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
- 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.

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	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*	386	259	251	80
Total External Debt	**386**	**259**	**251**	**80**
Investments: *Managed in-house* • Deposits and monies on call and Money Market Funds	20,810	38,910	39,077	39,161
• Supranational bonds	18,515	0	0	0
Total Investments	**39,325**	**38,910**	**39,077**	**39,161**
(Net Borrowing Position)/ Net Investment position	**38,939**	**38,651**	**38,826**	**39,081**

APPENDIX B

PRUDENTIAL INDICATORS 2013/14 TO 2015/16

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 2012/13, 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 Tax. The approved expenditure for 2012/13 and 2013/14 and the estimates of capital expenditure to be incurred for 2014/15 and future years are:

	2012/13 Approved £'000	**2013/14 Approved £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Approved capital schemes	3,526	1,259	(44)	(84)
Reserve schemes	1,279	1,062	0	0
New Schemes for 2013/14 start	533	881	370	0
Total Expenditure	**5,338**	**3,202**	**326**	**(84)**

The figures in the later years are showing income streams. This is due to income already budgeted from previously approved schemes. This will change as anticipated capital projects are approved. Additional capital expenditure will also occur if new capital receipts are received and used to finance projects currently on the reserve list, as per the capital strategy.

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

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

Estimates of the ratio of financing costs to net revenue stream for the 2013/14 and future years, and the approved figures for 2012/13 are:

Portfolio	2012/13 Approved £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Financing Costs*	(397)	(220)	(165)	(177)
Net Revenue Stream	16,577	17,955	19,153	18,341
%*	**(2.4)**	**(1.2)**	**(0.9)**	**(1.0)**

*Figures in brackets denote income through receipts or reserves.

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

Prudential Indicator 3 - Capital Financing Requirement:

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

	2012/13 Approved £'000	2013/14 Approved £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Opening CFR	9,506	9,381	9,447	9,332
Capital Expenditure	3,526	3,598	447	0
Capital Receipts*	(3,117)	(2,140)	(326)	84
Grants/Contributions*	(409)	(1,458)	(121)	(84)
MRP	(125)	(96)	(115)	(99)
Additional Leases taken on during the year	0	163		
Closing CFR	**9,381**	**9,447**	**9,332**	**9,234**

*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 have an identified income stream from the Crewkerne Aqua Centre Loan Repayment and the repayment of capital from the Goldenstones 10 year plan, the current position is showing an abnormal contribution to capital receipts in year 2015/16 (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.

	2012/13 Approved £'000	2013/14 Approved £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Net Borrowing*	(36,014)	(38,910)	(39,077)	(39,161)
CFR	9,381	9,447	9,332	9,234

*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.

	2012/13 % Limit	2013/14 % Limit	2014/15 % Limit	2015/16 % Limit
Fixed	80	80	80	80
Variable	100	100	100	100

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

	2012/13 % Limit	2013/14 % Limit	2014/15 % Limit	2015/16 % Limit
Fixed	100	100	100	100
Variable	100	100	100	100

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

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

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

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Between 1-2 years	25,000	25,000	25,000	25,000
Between 2-3 years	20,000	20,000	20,000	20,000
Between 3-4 years	10,000	10,000	10,000	10,000
Between 4-5 years	10,000	10,000	10,000	10,000
Over 5 years	5,000	5,000	5,000	5,000

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

Prudential Indicator 7 – Credit Risk:

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

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

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

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

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

Prudential Indicator 8 - Actual External Debt:

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

Actual External Debt as at 31/03/2013	**£'000**
Borrowing	0
Other Long-term Liabilities	386
Total	**386**

Prudential Indicator 9 - Authorised Limit for External Debt:

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

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

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.

	2012/13	**2013/14**	**2014/15**	**2015/16**

	Approved £'000	Approved £'000	Estimate £'000	Estimate £'000
Borrowing	11,000	11,000	11,000	11,000
Other Long-term Liabilities	1,000	1,000	1,000	1,000
Total	**12,000**	**12,000**	**12,000**	**12,000**

Prudential Indicator 10 – Operational Boundary for External Debt:

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

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

	2012/13 Approved £'000	2013/14 Approved £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Borrowing	9,200	9,200	9,200	9,200
Other Long-term Liabilities	800	800	800	800
Total	**10,000**	**10,000**	**10,000**	**10,000**

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

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

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

Maturity structure of fixed rate borrowing	2011/12 % Actual	2012/13 % 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 12 - 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	2012/13 Approved £	2013/14 Approved £	2014/15 Estimate £	2015/16 Estimate £
Decrease in Band D Council Tax	0.34	0.47	0.67	0.67

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

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

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

Arlingclose's Economic and Interest Rate Forecast

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose 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
3-month LIBID rate													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.80	0.80
Arlingclose Central Case	**0.45**	**0.45**	**0.50**	**0.55**	**0.55**	**0.55**	**0.55**	**0.60**	**0.65**	**0.70**	**0.80**	**0.80**	**0.80**
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.30	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55
1-yr LIBID rate													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
Arlingclose Central Case	**0.90**	**0.95**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**1.20**	**1.25**	**1.30**	**1.40**	**1.40**
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**	**1.85**	**1.95**	**2.10**	**2.30**	**2.50**	**2.50**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
10-yr gilt yield													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**3.00**	**3.10**	**3.30**	**3.50**	**3.50**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
20-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.25**	**3.30**	**3.35**	**3.40**	**3.45**	**3.50**	**3.55**	**3.65**	**3.75**	**3.85**	**4.05**	**4.15**	**4.15**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
50-yr gilt yield													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.45**	**3.50**	**3.55**	**3.60**	**3.65**	**3.70**	**3.75**	**3.80**	**3.85**	**3.95**	**4.05**	**4.15**	**4.15**
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

Underlying Assumptions:

- Growth continues to strengthen with the initial estimate for Q3 growth coming in at 0.8%. The service sector remains the main driver of growth, boosted by a significant contribution from construction.

- The unemployment rate remained at 7.7%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.

- The CPI for September remained at 2.7%. Regulated and administered prices are likely to keep CPI above target in the near term. In the medium term inflation is expected to come back towards the target 2%.

- The principal measure in the MPC's Forward Guidance on interest rates is the Labour Force Survey (LFS) unemployment rate. The MPC intends not to raise the Bank Rate from its current level of 0.5% at least until this rate has fallen to a threshold of 7%. It currently forecasts this level to emerge in Q2/2016, but this will be updated in the November Inflation Report.

- House price inflation is likely to rise due to the government's Help to buy scheme, where it will guarantee up to 15% of purchasers' 95% mortgages. This could lead to a housing bubble, which in turn could come under pressure if rates were to rise quickly.

- Federal Reserve monetary policy expectations - the slowing in the pace of asset purchases ('tapering') and the end of further asset purchases - will remain predominant drivers of the financial markets. Recent weaker data from the US suggests that the recovery is slowing, therefore tapering looks more likely in Q1 2014.

- The US political deadlock over spending cuts and the debt ceiling is likely to reoccur in Q1 2014. The partial closedown on government in is estimated to have cost the US economy over $24bn.

- The European backstop mechanisms have lowered the risks of catastrophic meltdown. The slightly more stable economic environment at the aggregate Eurozone level could be undone by political risks and uncertainty in Italy, Spain and Portugal (doubts over longevity of their coalitions). The ECB has discussed a third LTRO, as credit conditions remain challenging for European banks.

- China data has seen an improvement, easing markets fears.

- On-going regulatory reform and a focus on bail-in debt restructuring is likely to prolong banking sector deleveraging and maintain the corporate credit bottleneck.

- Geopolitical tensions make for a less than conducive backdrop while global economies remain fragile, especially the emerging economies.

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)

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	£6,002,000
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	Natwest (RBS Group)	£6,000,000	£6,000,000
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS) Group	£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	

Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£6,000,000	
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£6,000,000	
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£6,000,000	
Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£6,000,000	
Term Deposits/Call Accounts	Finland	Nordea Bank Finland	£6,000,000	
Term Deposits/Call Accounts	Finland	Pohjola	£6,000,000	
Term Deposits/Call Accounts	France	BNP Paribas	£6,000,000	
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£6000,000	£6,000,000
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£6,000,000	
Term Deposits/Call Accounts	France	Societe Generale	£6,000,000	
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£6,000,000	
Term Deposits/Call Accounts	Netherlands	ING Bank NV	£6,000,000	
Term Deposits/Call Accounts	Netherlands	Rabobank	£6,000,000	
Term Deposits/Call Accounts	Netherlands	Bank Nederlandse Gemeenten	£6,000,000	
Term Deposits/Call Accounts	Singapore	DBS Bank Ltd	£6,000,000	
Term Deposits/Call Accounts	Singapore	Oversea-Chinese Banking Corporation (OCBC)	£6,000,000	
Term Deposits/Call Accounts	Singapore	United Overseas Bank (UOB)	£6,000,000	
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	£6,000,000	

Term Deposits/Call Accounts	Switzerland	Credit Suisse	£6,000,000	
Term Deposits/Call Accounts	US	JP Morgan	£6,000,000	

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

APPENDIX E

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:

Instrument	**Maximum maturity**	**Max %/£M of portfolio**	**Capital expenditure?**	**Example**
Term deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years	70% in aggregate	No	
Term deposits with local authorities	2 years	70% in aggregate	No	
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	5 years	70% in aggregate	No	
Deposits with registered providers	10 years	£5m	No	
Gilts	10 years	70% in aggregate	No	
Bonds issued by multilateral development banks	10 years	70% in aggregate	No	EIB Bonds, Council of Europe Bonds etc.
Sterling denominated bonds by non-UK sovereign governments	10 years	70% in aggregate	No	
Money Market Funds and Collective Investment Schemes	These funds do not have a defined maturity date	50% of portfolio	No	Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Growth Fund
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12	10 years	£10m	No	

onwards				
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 and subsequent amendments	These funds do not have a defined maturity date	£2M	Yes	Way Charteris Gold Portfolio Fund; Aviva Lime Fund

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 – 28 November 2013

9. Audit Committee 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:-

1. 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.

Items marked in italics are not yet confirmed.

Background Papers: *None*

Audit Committee – 28 November 2013

Appendix A

Audit Committee Forward Plan

Meeting Date	Agenda Item	Lead Officer
19 Dec 13 TBC	Risk Management Update	Gary Russ
19 Dec 13 TBC	Procurement Procedure Rules	Donna Parham
19 Dec 13 TBC	Financial Procedure Rules	Donna Parham
23 Jan 14 TBC	Health, Safety and Welfare (Annual Report)	Pam Harvey
27 Feb 14	Treasury Management Strategy and Prudential Indicators for 2014/15 – **Needs to be presented to Full Council in March**	Karen Gubbins
27 Feb 14	Annual Governance Statement Action Plan	Donna Parham
27 Feb 14	Treasury Management – Third quarter monitoring report	Karen Gubbins
27 Feb 14	Internal Audit – third quarter update	Andrew Ellins
27 Feb 14	Internal Audit Plan – approve 14/15 plan	Andrew Ellins
27 Feb 14	Internal Audit - Charter	Andrew Ellins
27 Feb 14	External Audit – Audit Plan	Donna Parham
27 Feb 14	External Audit – Certification of claims & returns: Annual Report	Donna Parham

10. Date of Next Meeting

The next scheduled meeting of the Audit Committee will be held on Thursday, 19 December at 10.00 a.m. in the Main Committee Room, Council Offices, Brympton Way, Yeovil.