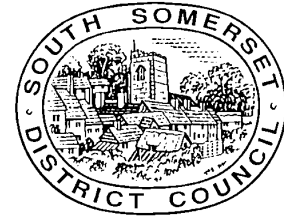


**South Somerset District Council**

*Notice of Meeting*



# Audit Committee

*Making a difference where it counts*

**Thursday 27th November 2014**

**10.00 am**

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

(disabled access is available at this meeting venue)



The public and press are welcome to attend.

If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Anne Herridge 01935 462570**, website: [www.southsomerset.gov.uk](http://www.southsomerset.gov.uk)

This Agenda was issued on Wednesday 19 November 2014.

A handwritten signature in black ink that reads 'Ian Clarke'.

*Ian Clarke, Assistant Director (Legal & Corporate Services)*

This information is also available on our website  
[www.southsomerset.gov.uk](http://www.southsomerset.gov.uk)



INVESTORS IN PEOPLE

# **Audit Committee Membership**

The following members are requested to attend the meeting:

**Chairman:** Derek Yeomans  
**Vice-chairman:** Ian Martin

John Calvert  
John Dyke  
Tony Lock

Roy Mills  
Terry Mounter  
David Norris

John Richardson  
Colin Winder

## **South Somerset District Council – Council Plan**

**Our focuses 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.

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## **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](http://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 27 November 2014**

## Agenda

### *Preliminary Items*

**1. Minutes**

To approve as a correct record the minutes of the previous meeting held on 23<sup>rd</sup> October 2014.

**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**

**5. Date of the Next Audit Committee Meeting**

The next scheduled meeting of the Audit Committee should be held on Thursday 18<sup>th</sup> December 2014 at 10.00am in the Main Committee Room, Council Offices, Brympton Way, Yeovil.

### *Items for Discussion*

**6. Treasury Management Performance to September 2014 (Pages 1 - 13)**

**7. Treasury Management Practices (Pages 14 - 49)**

**8. 2013-14 Annual Governance Statement Action Plan (Page 50)**

**9. Audit Committee Forward Plan (Pages 51 - 52)**

# Agenda Item 6

## **Treasury Management Performance to September 2014**

*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 2014.

### **Recommendations**

2. The Audit Committee are asked to:
  - Note the Treasury Management Activity for the six-month period ended 30<sup>th</sup> September 2014.
  - Note the position of the individual prudential indicators for the six-month period ended 30<sup>th</sup> September 2014.
  - Approve a temporary breach of the non-specified investment limit if required when government support is removed from the banking industry due in January 2015.

### **The Investment Strategy for 2014/15**

3. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
4. Treasury management in this context is defined as:

"The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".
5. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
6. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.
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.
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 2014/15

11. Base rate began the financial year and remains at 0.5%.
12. Our advisors are forecasting that the outlook is for official interest rates to remain at 0.5% until September 2015, as shown below. They are also predicting the rise in the bank rate to be slow and gradual with the Bank Rate post-crisis to range between 2.5% and 3.5%.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Dec-17
Official Bank Rate												
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75
Downside risk				0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00

### Investment Portfolio

13. The table below shows the Council's overall investments as at 30<sup>th</sup> September 2014:

	Value of Investments at 01.04.14 £	Value of Investments at 30.09.14 £	Fixed/ Variable Rate
<b>Externally Managed Investments</b>			
Money Market Fund(Variable Net Asset Value)	997,565	997,565	Variable
Property Fund	<u>3,052,479</u>	<u>3,052,479</u>	Variable
Total	<b><u>4,050,044</u></b>	<b><u>4,050,044</u></b>	

### Internal Investments

Certificates of Deposit	6,519,416	10,002,574	Fixed
Corporate Bonds	8,127,004	11,098,738	Fixed
Floating Rate Notes (FRNs)	3,006,315	2,029,676	Variable
Term Deposits (Banks)	9,000,000	19,200,000	Variable
Term Deposits (Other LA's)	5,000,000	4,000,000	Variable
Money Market Funds (Constant Net Asset Value) & Business Reserve Accounts	7,690,000	1,760,000	Variable
<b>Total</b>	<b>39,342,735</b>	<b>48,090,988</b>	

<b>TOTAL INVESTMENTS</b>	<b>43,392,779</b>	<b>52,141,032</b>
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### Returns for 2014/15

14. The returns to 30th September 2014 are shown in the table below:

	<b>Actual Income £'000</b>	<b>Rate of Return</b>
<b>Externally Managed Investments</b>		
Payden Money Market Fund (VNAV)	4	
Property Fund	81	
<b>Total</b>	<b>85</b>	<b>4.28%</b>
<b>Internal Investments</b>		
Certificates of Deposit	40	
Corporate Bonds	54	
Floating Rate Notes (FRNs)	11	
Term Deposits	74	
Money Market Funds (CNAV) & Business Reserve Accounts	17	
<b>Total</b>	<b>196</b>	<b>0.83%</b>
<b>Other Interest</b>		
Miscellaneous Loans	6	
<b>Total</b>	<b>6</b>	
<b>TOTAL INCOME TO 30<sup>TH</sup> SEPTEMBER 2014</b>	<b>287</b>	<b>1.20%</b>
<b>PROFILED BUDGETED INCOME</b>	<b>170</b>	
<b>FORECAST SURPLUS FOR YEAR END</b>	<b>153</b>	
<b>BENCHMARK RATE OF RETURN</b>	<b>0.45%</b>	

15. The table above shows investment income for the year to date compared to the profiled budget. The annual budget is set at £340,340. We currently estimate that the position at the end of the financial year will be an overall favourable variance in the order of £153,300. This is due to extending the average length of investments to achieve higher returns and good performance from the property fund which we are assuming will continue however if there is a dip in the economy this could affect the forecasted return.



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 2014/15. 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 2014 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 2014/15. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 30<sup>th</sup> September 2014 the Council had no external borrowing.

## **Bail in update**

21. As at 10<sup>th</sup> November 2014 SSDC has £8,801,000 made up of 10 investments that fall out of Arlingclose's current advice although they were within when they were taken out. As mentioned in the 'Bail in' Presentation in October and following the legislation being passed by the European Union to pass the cost of failing banks onto a smaller number of creditors, including local authorities. Arlingclose is advising that a prudent response to this would be for clients to rein in maturity limits for new unsecured investments however they do not advise clients to exit any existing investments at this stage.

22. As a result of the government support being removed from banks the investments could move from being "specified investments" to "non-specified investments" which will cause us to breach our current limit on "non-specified investments". This could happen before January 2015 which means our current strategy does not accommodate this change. Therefore members are asked to accept and approve a temporary breach should any of our investments fall within this criterion.

### Breakdown of investments as at 30th September 2014

<b>Date Lent</b>	<b>Counterparty</b>	<b>Principal Amount</b>	<b>Rate</b>	<b>Maturity Date</b>
17-Feb-14	Barclays Bank Plc	1,000,000	0.85	17-Feb-15
7-Nov-13	Barclays Bank Plc	1,000,000	0.86	7-Nov-14
29-Sep-14	Bank of Scotland	1,000,000	0.57	20-Jan-15
3-Jun-14	Nationwide Building Society	1,000,000	0.75	18-Mar-15
2-Jul-14	Bank of Scotland	1,000,000	0.76	20-Mar-15
25-Oct-13	Lancashire County Council	1,000,000	0.60	24-Oct-14
4-Sep-14	Santander	1,000,000	0.63	9-Feb-15
11-Dec-13	Lancashire County Council	1,000,000	0.60	5-Nov-14
6-Jan-14	Greater London Authority	2,000,000	1.03	6-Oct-15
31-Mar-14	Bank of Scotland	1,000,000	0.95	27-Mar-15
1-Apr-14	Nationwide Building Society	1,000,000	0.60	20-Oct-14
14-Apr-14	Nationwide Building Society	1,000,000	0.77	19-Mar-15
8-May-14	National Australia Bank Ltd	1,000,000	0.53	17-Nov-14
22-May-14	Santander	1,000,000	0.62	22-Nov-14
23-May-14	Rabobank International	1,000,000	0.78	22-May-15
25-Jun-14	Santander	1,000,000	0.63	22-Dec-14
1-Jul-14	Rabobank International	1,000,000	0.70	18-Mar-15
15-Jul-14	Rabobank International	1,200,000	0.63	9-Mar-15
24-Jul-14	Barclays Bank Plc	1,000,000	0.70	27-Feb-15
4-Sep-14	Furness Building Society	1,000,000	0.65	4-Mar-15
16-Sep-14	Nationwide Building Society	1,000,000	0.56	19-Jan-15
18-Sep-14	National Counties Building Society	1,000,000	0.65	20-Feb-15
	<b>Corporate Bonds</b>			
10-Dec-13	GE Capital UK Funding	1,000,000	1.42	18-Jan-16
17-Jan-14	Places for People Capital Markets PLC	568,000	2.67	27-Dec-16
17-Jan-14	Places for People Capital Markets PLC	432,000	2.67	27-Dec-16
10-Feb-14	Thames Water Utilities Finance Ltd	450,000	1.02	30-Jun-15
10-Feb-14	Heathrow Funding Ltd	1,000,000	1.16	08-Jun-15
10-Feb-14	Volkswagen International Finance NV	500,000	0.88	19-Dec-14
17-Feb-14	National Australia Bank Ltd	1,000,000	0.62	08-Dec-14
07-Apr-14	Suncorp Metway Ltd	300,000	1.05	27-Oct-14
07-Apr-14	Commonwealth Bank of Australia	501,000	0.99	14-Dec-15
08-Apr-14	Nordea Bank AB	500,000	0.98	15-Dec-15
02-Jun-14	Volkswagen International Finance NV	500,000	0.98	20-Aug-15
21-Jul-14	GE Capital UK Funding	661,000	0.72	3-Mar-15
04-Aug-14	Leeds Building Society *Covered by Mortgage*	500,000	2.13	17-Dec-18
13-Aug-14	American Express Credit Corp	1,000,000	0.69	1-Oct-14
08-Sep-14	Rabobank Nederland NV	800,000	1.05	10-Sep-15
08-Sep-14	Volkswagen International Finance NV	500,000	0.98	20-Aug-15
30-Sep-14	European Investment Bank	500,000	0.64	8-Jul-15
	<b>Certificates of Deposit (CDs)</b>			
14-Feb-14	Deutsche Bank LDN 0.73 16/02/15	1,000,000	0.70	16-Feb-15

07-Mar-14	Standard Chartered 0.59 8/9/14	1,000,000	0.56	08-Sep-14
16-Apr-14	Deutsche Bank LDN 0.68% 16/1/15	1,000,000	0.65	16-Jan-15
29-Apr-14	Standard Chartered 0.61% 29/10/14	1,000,000	0.58	29-Oct-14
15-May-14	Deutsche Bank 0.85% 14/5/15	1,000,000	0.82	14-May-15
05-Jun-14	Deutsche Bank 0.85% 4/6/15	1,000,000	0.82	04-Jun-15
09-Jul-14	Nordea Bank Finland 0.62% 9/1/15	1,000,000	0.59	09-Jan-15
15-Jul-14	Standard Chartered 0.65% 15/1/15	2,000,000	0.62	15-Jan-15
24-Sep-14	Barclays Bank Plc 1.08% 23/9/15	1,000,000	1.04	23-Sep-15
	<b><u>Floating Rate Notes (FRNs)</u></b>			
25-Nov-13	HSBC Bank PLC	1,000,000	0.82	16-May-16
03-Apr-14	Yorkshire Building Society *Covered by Mortgage*	1,000,000	0.94	23-Mar-16
	<b><u>Business Reserve Accounts</u></b>			
	Handelsbanken	1,760,000	0.50	
	<b><u>Externally Managed Funds</u></b>			
	CCLA Property Fund	3,000,000		
	Payden Fund VNAV	1,000,000		

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

## **Prudential Indicators – Quarter 2 monitoring**

### **Background:**

23. In March 2014, Full Council approved the indicators for 2014/15, 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:**

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

	<b>2014/15 Original Estimate £'000</b>	<b>Expected Outturn £'000</b>	<b>2014/15 Variance £'000</b>	<b>Reason for Variance</b>
Approved capital schemes	4,561	4,291	(270)	The variance is made up from moving approved schemes from the main programme back into reserves relating to affordable housing
Reserves	1,847	3,099	1,252	The variance is due to slippage from last financial year into this financial year and an increase in the affordable housing reserve from the main programme
<b>Total Expenditure</b>	<b>6,408</b>	<b>7,390</b>	<b>982</b>	

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

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

26. 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.

<b>Portfolio</b>	<b>2014/15 Original Estimate £'000</b>	<b>Expected Outturn £'000</b>	<b>2014/15 Variance £'000</b>	<b>Reason for Variance</b>
Financing Costs*	(226)	(334)	(108)	Although MRP has increased due to taking out more leases in 13/14,

				investment income is higher due to higher returns and good performance from the property fund
Net Revenue Stream	17,541	17,927	386	Underspends from 13/14 being carried forward increasing the net revenue budget for 14/15
%*	(1.3)	(1.9)		

\*figures in brackets denote income through receipts and reserves

27. 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 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:

28. 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:

	2014/15 Original Estimate £'000	Expected Outturn £'000	2014/15 Variance £'000	Reason for Variance
Opening CFR	9,374	9,622	248	
Capital Expenditure	5,410	5,203	(207)	See explanation for Prudential Indicator 1 above
Capital Receipts*	(4,461)	(4,291)	170	Slippage of schemes approved in previous years
Grants/Contributions*	(949)	(912)	37	
Minimum Revenue Position (MRP)	(114)	(178)	(64)	More leases taken out for vehicles at the end of 13/14. This is negative as it reduces the need for debt thus reducing the CFR
<b>Closing CFR</b>	<b>9,260</b>	<b>9,444</b>	<b>184</b>	

\*Figures in brackets denote income through receipts or reserves.

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

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

	2014/15 Original Estimate £'000	2014/15 Qtr 1 Actual £'000	2014/15 Variance £'000	Reason for Variance
Borrowing	0	0	0	
Finance Leases	147	348	201	More leases taken out for vehicles at the end of 13/14
<b>Total Debt</b>	<b>147</b>	<b>348</b>	<b>201</b>	

30. Total debt is expected to remain below the CFR.

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

31. 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.

	2014/15 % Limit	2014/15 Qtr 1 Actual %	2014/15 Variance %	Reason for Variance
Fixed	80	11	(69)	Within limit
Variable	100	89	(11)	Within limit

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

	2014/15 % Limit	2014/15 Qtr 1 Actual %	2014/15 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

33. 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:

34. 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	2014/15 Maximum Limit £'000	2014/15 Qtr 1 Actual £'000	Reason for Variance
Between 1-2 years	25,000	6,148	Within limit
Between 2-3 years	20,000	1,057	Within limit
Between 3-4 years	10,000	0	Within limit
Between 4-5 years	10,000	543	Within limit
Over 5 years	5,000	0	Within limit

35. 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:

36. 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:

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

Actual External Debt as at 31/03/2014	£'000
Borrowing	0
Other Long-term Liabilities (Finance Leases)	511
<b>Total</b>	<b>511</b>

### Prudential Indicator 9 - Authorised Limit for External Debt:

38. 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.

39. 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.

	2014/15 Estimate £'000	2014/15 Qtr 1 Actual £'000	2014/15 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	348	(652)	Within limit
<b>Total</b>	<b>12,000</b>	<b>348</b>	<b>(11,652)</b>	

### Prudential Indicator 10 – Operational Boundary for External Debt:

40. 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.

	2014/15 Estimate £'000	2014/15 Qtr 1 Actual £'000	2014/15 Variance £'000	Reason for Variance
Borrowing	9,200	0	(9,200)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	800	348	(452)	Within limit
<b>Total</b>	<b>10,000</b>	<b>348</b>	<b>(9,652)</b>	

### Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

41. 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.



<b>Maturity structure of fixed rate borrowing</b>	<b>2011/12 Actual</b>	<b>2012/13 Actual</b>	<b>2013/14 Qtr 1 Actual</b>	<b>Lower Limit</b>	<b>Upper Limit</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
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:**

42. 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.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2013/14 Actual</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Decrease in Band D Council Tax	0.29	0.04	0.15	0.17

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

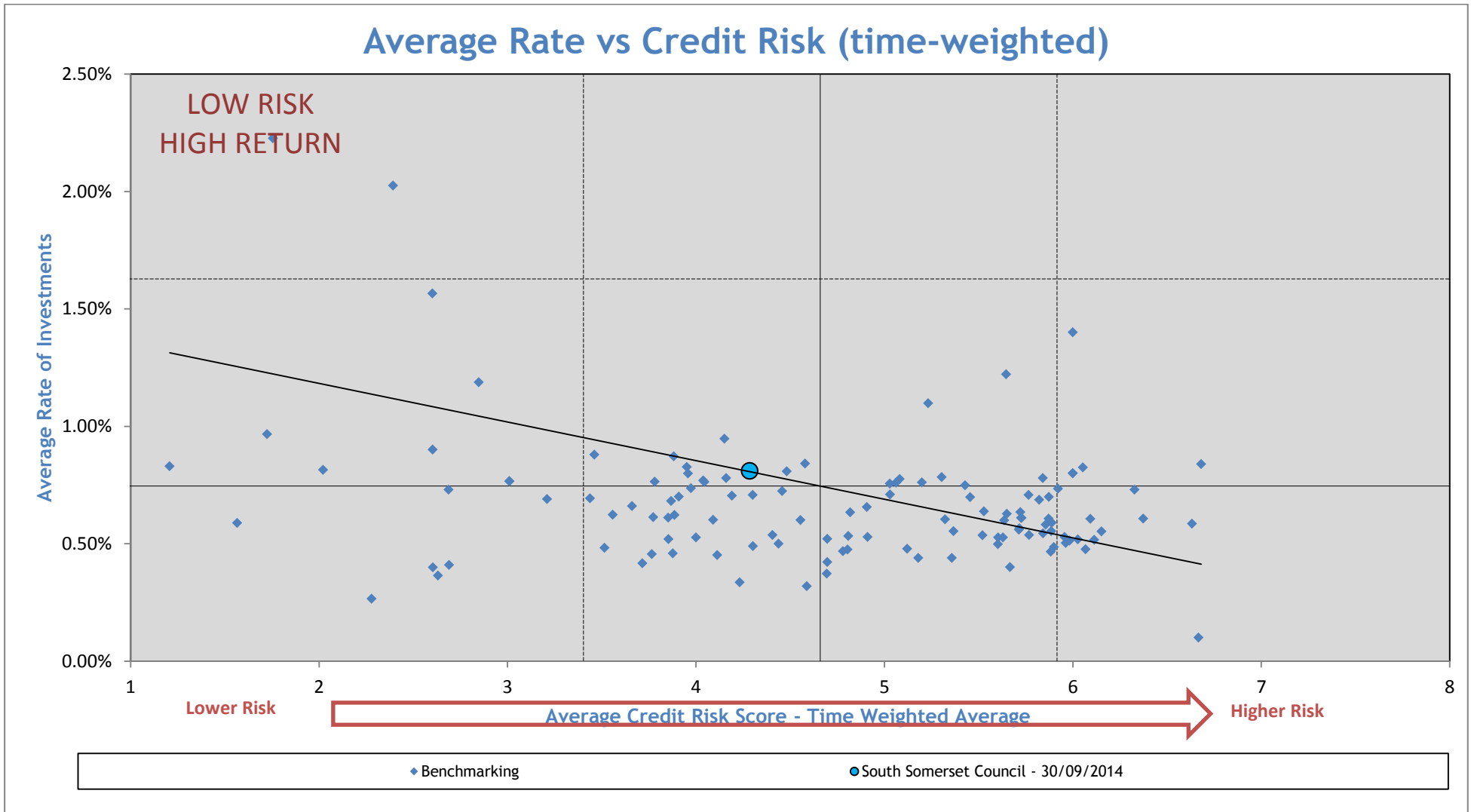
43. This indicator demonstrates that the Council has adopted the principles of best practice.

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

#### **Conclusion**

44. 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 2014/15, Quarter 2 2014/15 Capital Programme.



# Agenda Item 7

## Treasury Management Practices

*Head of Service:* Donna Parham, Assistant Director Finance and Corporate Services  
*Lead Officer:* Karen Gubbins, Principal Accountant - Exchequer  
*Contact Details:* [Karen.gubbins@southsomerset.gov.uk](mailto:Karen.gubbins@southsomerset.gov.uk) or 01935 462456

## Purpose of the Report

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

## Recommendation

1. That members approve the attached Treasury Management Policy (Appendix 1)
2. That members approve the attached Treasury Management Practices (Appendix 2)

## Background

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

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities,
- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices comprise:

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

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

## **Financial Implications**

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

**Background Papers:** *Cipfa Treasury Management Code of Practice*  
*Treasury Management Strategy Statement*  
*Treasury Management Operations Manual*

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## **TREASURY MANAGEMENT POLICY STATEMENT**

### **1. Introduction and background**

- 1.1 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.
- 1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.3 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, in the form prescribed in its TMPs.
- 1.4 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 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.
- 1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **2. Policies and objectives of treasury management activities**

- 2.1 The Council defines its treasury management activities as:

"The management of the Council'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."

- 2.2 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.
- 2.3 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."
- 2.4 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.

## Appendix 1

- 2.5 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.

# Treasury Management Practices

## Principles and Schedules

November 2014



South Somerset District Council

## **Introduction**

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

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

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

The Treasury Management Practices (TMPs) comprise:

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



## **TMP 1: Risk management**

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

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

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

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

*Schedule:*

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

- The Assistant Director – Finance and Corporate Services is responsible for setting prudent criteria and the Council's treasury advisors will also provide guidance and assistance in setting the criteria
- The criteria will be agreed by Audit Committee/Full Council
- The current criteria is contained within the operations manual
- The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support, CDS information). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties

Approved methodology for changing limits and adding/removing counterparties

- The Assistant Director – Finance and Corporate Services has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above

### Counterparty list and limits

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

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

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

Details of credit rating agencies' services and their application

- The Council considers the ratings of all 3 ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions

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

- The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information of share price. In addition the Corporate Director – Finance and Corporate Services reads quality financial press for information on counterparties
2. **Liquidity Risk Management: Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objective will be thereby compromised.**

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

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

*Schedule:*

### Cash flow and cash balances

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

## Appendix 2

### Short term investments

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

### Temporary Borrowing

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

### Bank overdraft and standby facilities

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

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

*Schedule:*

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

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

### Managing changes to interest rate levels

## Appendix 2

- The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.
- The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.
- Interest rate forecasts are provided by the Council's advisors and are closely monitored by the treasury team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Audit Committee as necessary.
- For its investments, the Council also considers dealing from forward periods dependent upon market conditions

### Details of approved interest rate exposure limits

- As per the Council's prudential indicators, the upper limit for variable interest rate investment as a proportion of total investments is 100%. In terms of long term borrowing, the Council can have no more than 80% in variable interest rate borrowings

### Details of hedging tools used to manage risk

- The Authority's legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Authority does not intend to use derivatives to manage interest rate risk.
  - Should this position change, the Authority will develop a detailed risk management framework governing the use of derivatives, but this will also require full Council approval.
4. **Exchange Rate Risk Management: The risk that the fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.**

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

*Schedule:*

### Exchange rate risk management

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

**current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.**

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

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

*Schedule:*

Projected capital investment requirements

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

Debt profiling, policies and practices

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

Policy concerning limits on revenue consequences of capital financings

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

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

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

*Schedule:*

References to relevant statutes and regulations

- The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:
  - CIPFA's Treasury Management Code of Practice 2001 and subsequent amendments
  - CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
  - CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
  - CIPFA Standard of Professional Practice on Treasury Management
  - The Local Government Act 2003
  - The Local Authorities (Capital Finance and Accounting) (England ) Regulations 2003 SI 2003 No 3146, and subsequent amendments
  - The CLG's statutory Guidance on Minimum Revenue Provision (MRP)
  - The ODPM's (now CLG's) Guidance on Local Government Investments in England issued March 2004 and subsequent amendments
  - The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
  - LAAP Bulletins
  - Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards)
  - Accounts and Audit Regulations 2003, as amended together with CLG's Guidance
  - The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets
  - Council's Constitution including:-
    - Standing Order relating to Contracts
    - Financial Regulations
    - Scheme of Delegation

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

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

Required information from counterparties concerning their powers/ authorities

- Lending shall only be made to institutions on the Council's authorised lending list.
- The Council will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial

banks who are on the Council's list of authorised institutions, thereby minimising legal and regulatory risk. The list of approved sources of borrowing is contained in TMP 4.

Statement on political risks and management of the same

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

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

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

*Schedule:*

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

- Segregation of duties minimises the possibility of fraud and loss due to error and is detailed in TMP 5 Organisation, Clarity and segregation of responsibilities and, dealing arrangements.
1. Electronic Banking and Dealing
    - a) The Council's online banking service provided by Natwest is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data
    - b) Access to the Council's Treasury management drive is limited to those roles listed below, each having a separate log-on and password
      - Assistant Director – Finance & Corporate Services
      - Finance Manager
      - Principal Accountant – Exchequer
      - Management Accountant
      - Benefits and Control Officer
      - Insurance and Accounting Technician
    - c) Full procedure notes covering the day to day operation of the on-line banking system and the treasury management systems are documented and included within the operations manual.
  2. Standard Settlement Instructions
    - a) a list is maintained of named officers who have the authority to transact loans and investments
    - b) Brokers and counterparties with whom the Council deals direct are provided a copy of the Standard Settlement Instructions list

## Appendix 2

### 3. Payment authorisation

- a) payments can only be authorised by an agreed signatory(ies) of the council, the list of signatories having previously been agreed with the Council's bank
- b) inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts

### Verification

- Loans and investments will be maintained in registers which will include fees and brokerage paid.
- Transactions will be cross checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.

### Substantiation

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

### Internal Audit

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

### Contingency Management

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

### Insurance Cover details

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

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

*Schedule:*



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

- Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks, capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.
- Additionally the following risk control guidelines are set for each fund as part of the fund management agreement to control market risk :
  - (a) Maximum weighted average duration of the fund;
  - (b) Maximum permitted exposure to gilts/bonds;
  - (c) Maximum maturity of any instrument.

Accounting for unrealised gains/losses

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

## **TMP 2: Performance Measurement**

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

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

*Schedule:*

Policy concerning methods for testing value for money

- Best value reviews will include the production of plans to review the way services are provided by :
  - Challenging
  - Comparing performance
  - Consulting with other users and interested parties
  - Applying competition principlesin order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

Policy concerning methods for performance measurement

- Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury

Management Strategy and the Council's Prudential Indicators and to enhance accountability.

- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.
- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.
- Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to
  - 1) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and
  - 2) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.
- In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.

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

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

Benchmarks and calculation methodology with regard to risk and return

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

Best Value

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

### **TMP 3: Decision Making and Analysis**

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

## Appendix 2

### *Schedule:*

#### Major treasury decisions

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

#### Process

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

#### Delegated powers for treasury management

- The Assistant Director – Finance & Corporate Services has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.

#### Issues to be addressed, evaluation, authorisation

- In exercising these powers, the Assistant Director – Finance & Corporate Services and those to whom the treasury activity have been delegated will
  - have regard to the nature and extent of any associated risks to which the Council may become exposed;
  - be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;
  - be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail;
  - ensure that the perceived credit risk associated with the approved counterparties is judged satisfactory and is within agreed limits;
  - be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive;
  - follow best practice in implementing the treasury transaction.

- In exercising Borrowing and Funding decisions, the responsible person will:
  - evaluate economic and market factors that may influence the manner and timing of any decision to fund;
  - consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;
  - consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
  - consider ongoing revenue liabilities created.
  
- In exercising Investment decisions, the responsible person will:
  - Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;
  - consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;
  - consider the alternative investment products and techniques available if appropriate.

#### Processes to be followed

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

#### Evidence and records to be kept

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

#### **TMP 4: Approved Instruments, Methods and Techniques**

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

*Schedule:*

#### Approved treasury management activities

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

## Appendix 2

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

### Approved capital financing methods and types/sources of funding

- On balance sheet
  - Public Works Loans Board (PWLB) loans
  - long term money market loans including LOBOs
  - temporary money market loans (up to 364 days).
  - bank overdraft
  - loans from bodies such as the European Investment Bank (EIB)
  - Stock issues
  - Finance Leases
  - Deferred Purchase
  - Government and EU Capital Grants
  - Lottery monies
  - Other Capital Grants and Contributions
  - PFI/PPP
- Internal Resources
  - Capital Receipts
  - Revenue Balances
  - Use of Reserves
- Off balance sheet
  - Operating Leases
  - Structured Finance
- The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

### Approved investment instruments

- The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non Specified' based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).
- The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply.
  - Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF), and UK local authorities
  - Term deposits with banks and building societies
  - Certificates of deposit
  - Callable deposits

- Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
  - Gilts
  - Bonds issued by multilateral development banks
  - Bonds issued by financial institutions guaranteed by the UK government
  - Sterling denominated bonds by non-UK sovereign governments
  - Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534
  - Pooled funds i.e. Collective Investment Schemes which do not meet the definition of Collective Investment Schemes in SI 2004 No 534
  - Bonds and debt instruments issued by corporate bodies e.g.
    - Corporate bonds
    - Commercial Paper
    - Floating Rate Notes
    - Asset Backed Securities
- The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the manager

#### Use of Derivatives

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

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

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

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

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

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

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

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

*Schedule:*

- Limits to responsibilities at Executive levels

**Council**

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

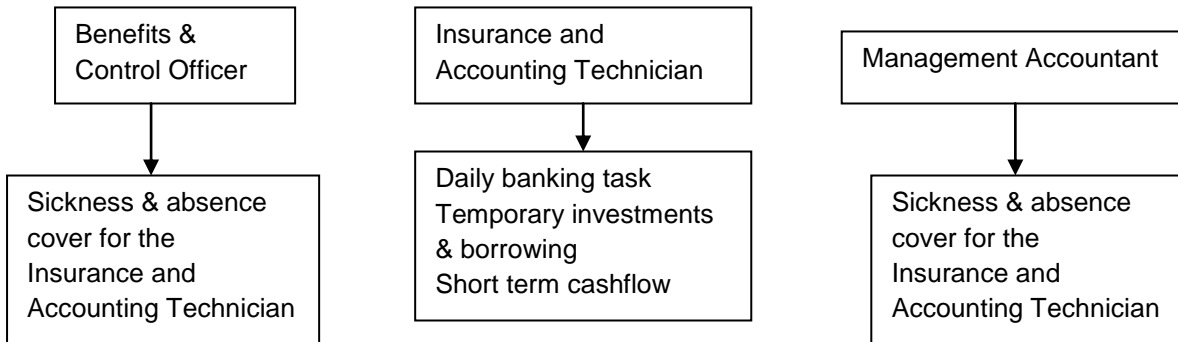
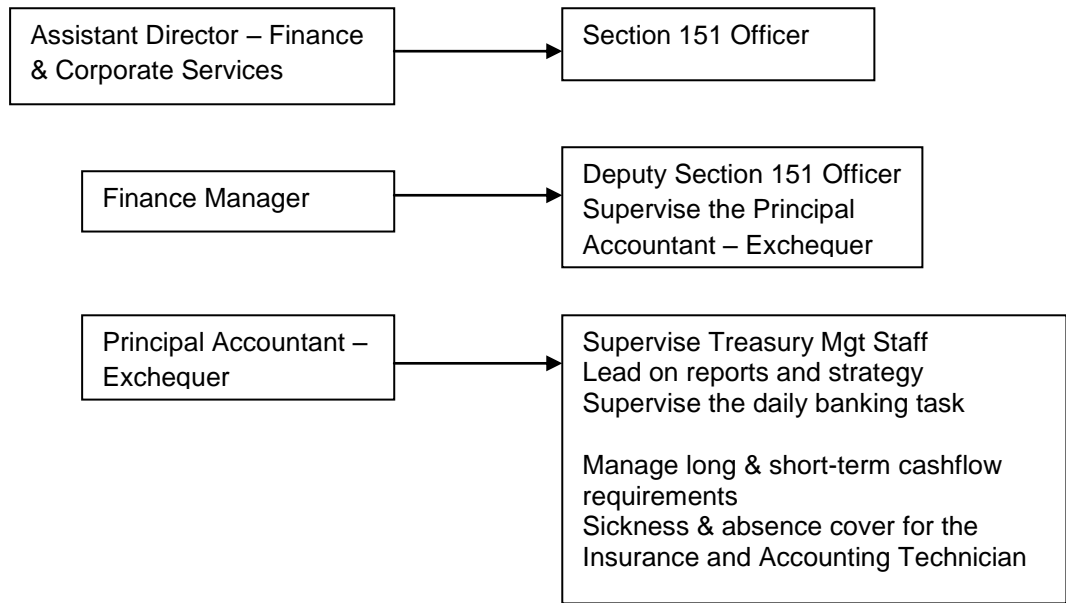
**Audit Committee**

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

- Principles and practices concerning segregation of duties

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

- Statement of duties/responsibilities of each treasury post





Statement of duties/responsibilities of each treasury post

**Assistant Director – Finance & Corporate Services**

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

**Principal Accountant – Exchequer**

The responsibilities of this post will be:-

- a) Adherence to agreed policies and practices on a day-to-day basis
- b) Supervising treasury management staff
- c) Monitoring performance on a day-to-day basis
- d) Monitoring responsibility of the Treasury Management Budget
- e) Managing long and short term cashflow

- f) Overseeing and authorising execution of transactions
- g) Submitting management information reports to the responsible officer

### **Chief Executive Officer**

The responsibilities of this post will be: -

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

### **Monitoring Officer**

The responsibilities of this post will be: -

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

### **Internal Audit (SWAP)**

The responsibilities of Internal Audit will be: -

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

### **Absence cover arrangements**

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

### **Dealing limits**

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

## Appendix 2

### List of approved brokers

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

### Policy on brokers' services

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

### Policy on taping of conversations

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

### Direct dealing practices

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

### Settlement transmission procedures

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

### Documentation requirements

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

### Arrangements concerning the management of third-party funds.

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

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

## **TMP 6: Reporting Requirements and Management information arrangements**

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

As a minimum, Full Council will receive:

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

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

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

*Schedule:*

Frequency of executive reporting requirements

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

Content of Reporting: 1. Prudential Indicators

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

## Appendix 2

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

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

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

### Content of Reporting: 3. Annual Treasury Report

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

## Appendix 2

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

### Content of Reporting: 4. Mid-Year Treasury Report

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

### Content and frequency of management information reports

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

### **TMP 7: Budgeting, accounting and audit arrangements**

*Principle:* The Responsible Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which

## Appendix 2

will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The form which the Council's budget will take is set out in the schedule below.

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

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

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

### *Schedule:*

#### Statutory/regulatory requirements

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

#### Proper accounting practice

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

#### Financial Statements

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

#### Treasury-related information requirements of external auditors

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

## Appendix 2

- Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
- Prudential Indicators.
- Treasury Management Strategy including Annual Investment Strategy.
- Investments:
  - Investment transactions during the year including any transaction-related costs
  - cash and bank balances at year end
  - Short-term investments at year end
  - Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end
  - calculation of (i) interest received (ii) accrued interest
  - actual interest received
  - External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
  - Basis of valuation of investments
  - Evidence of existence and title to investments (e.g. Custodian's Reports; FRAG-21 report from Custodian.
  - Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.
- Cash Flow:
  - Reconciliation of the movement in cash to the movement in net debt
  - Cash inflows and outflows (in respect of long-term financing)
  - Cash inflows and outflows (in respect of purchase/sale of long-term investments)
  - Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources

### Internal Audit

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

### Compliance with CIPFA Treasury Management and Prudential Codes

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

### **TMP 8: Cash and cash flow management**

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



## Appendix 2

management. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

### *Schedule:*

#### Arrangements for preparing /submitting cash flow statements

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

#### Content and frequency of cash flow projections

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

#### Monitoring, frequency of cash flow updates

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

#### Bank statements procedures

- The Council receives bank statements on a daily basis. These are posted independent of the treasury function and are reconciled to the general ledger on a monthly basis.

#### Payment scheduling

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

#### Monitoring debtor/ creditor levels

- Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report to the service managers which includes an analysis of debt by age.
- The level of Creditor invoices being processed is monitored on a monthly basis by the Exchequer Services Team.

#### Banking of funds

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

#### Listing of sources of information

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

#### Practices concerning prepayments to obtain benefits

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

#### **TMP 9: Money Laundering**

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

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

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

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

## Appendix 2

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

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

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

*Schedule:*

### Anti money laundering policy

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

### Treasury documentation

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

### Nomination of Responsible Officer

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

### Procedures for establishing the Identity of Lenders and Borrowers

## Appendix 2

- In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.
- The Council will not accept loans from individuals.
- In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.
- The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Financial Services Authority's website [www.fsa.gov.uk](http://www.fsa.gov.uk).
- All receipts/disbursements of funds will be undertaken by CHAPS settlement.
- Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed.
- All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.
- If the Authority takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals.

### **TMP 10: Training and qualifications**

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

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

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

*Schedule:*

Qualifications/ experience for treasury staff

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

Details of approved training courses

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

## Appendix 2

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

### Records of training received by treasury staff

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

### **TMP 11: Use of external service providers**

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

#### *Schedule:*

##### Banking services

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

##### Money-broking services

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

##### Cash/fund management services

- None

#### Consultants'/advisers' services

- Name of supplier of service – Arlingclose Ltd.
- Contract commenced 1 March 2010 and expires upon 28th February 2013, with the option to extend for a further two years in accordance with the relevant terms of the agreement
- Payments due annually on 1 April
- Terms for early termination of the contract: The Council may terminate the agreement by giving three months notice after 28th February 2013.

#### Bribery Act

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

#### **TMP 12: Corporate governance**

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

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

#### *Schedule:*

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

#### Council's website

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

#### Procedures for consultation with stakeholders

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

# Agenda Item 8

## **2013/14 - Annual Governance Statement Action Plan.**

*Assistant Director:* Donna Parham, Assistant Director – Finance and Corporate Services  
*Lead Officer:* Donna Parham, Assistant Director – Finance and Corporate Services  
*Contact Details:* Donna.Parham@southsomerset.gov.uk

### **Purpose of the Report**

This report has been prepared for the Audit Committee to review the progress made on the 2013-14 Annual Governance Statement (AGS) Action Plan

### **Recommendation**

To note the progress made.

### **Background**

The Audit Committee agreed the action plan in May 2014 at the same time as approving the Annual Governance Statement. As agreed the action plan will be monitored quarterly to ensure progress is made and improvements in governance are acted upon during the year. This will strengthen the overall governance framework and improve the assurances that can be given for the next Annual Governance Statement.

### **Action Plan**

The action plan included the following actions:-

A refresh of the **Risk Management Strategy** and reporting risk management regularly to **Management Board** and **Audit Committee**;

**Update:-** The Risk Management Strategy is being reviewed and will be presented to Audit Committee in 2015. So far this year Management Board have reviewed the risk appetite and a report submitted to the Audit Committee. A further update will be made in December 2014.

Provide refresher training on **Data Protection** and **data encryption**.

We have had a rolling programme of Data Protection training (the vast majority of our staff have been trained in basic awareness. We also have Data Protection nominees in each service who have had a greater level of training. It is planned to run member training, on the key Data Protection issues that affect them in June next year.

At present data encryption training is provided to staff who are issued with encrypted devices or software on a case by case basis. We also provide updates on our Intranet pages for all staff and at staff forums including the Data Protection User Group and the ICT User Group on any items of note regarding encryption. Both forums have a selection of representatives present from across the Council.

### **Financial Implications**

There are no financial implications associated with these recommendations.

**Background Papers** :None

# Agenda Item 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*

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## AUDIT COMMITTEE - FORWARD PLAN 2014/15

Committee Date	Responsible Officer
December 2014 <ul style="list-style-type: none"> <li>• Risk Management Update</li> <li>• Financial Procedure Rules 2013/14</li> </ul>	Gary Russ Donna Parham
January 2015 <ul style="list-style-type: none"> <li>• Annual Fraud Programme</li> <li>• Treasury Management Strategy and Prudential Indicators for 2014/15 – <b>Needs to go to Full Council in March</b></li> </ul>	Tom Chown/Lynda Creek Karen Gubbins
February 2015 <ul style="list-style-type: none"> <li>• Annual Governance Statement Action Plan</li> <li>• Treasury Management – Third quarter monitoring report</li> <li>• Internal Audit – third quarter update</li> <li>• Internal Audit Plan – approve 14/15 plan</li> <li>• Internal Audit - Charter</li> <li>• External Audit – Audit Plan</li> <li>• External Audit – Certification of Housing Benefit Subsidy Claim</li> </ul>	Donna Parham Karen Gubbins Andrew Ellins Andrew Ellins Andrew Ellins Donna Parham Donna Parham
March 2015 <ul style="list-style-type: none"> <li>• Health, Safety, and Welfare (Annual Report)</li> </ul>	Pam Harvey