Public Document Pack

South Somerset District Council
Notice of Meeting

Audit Committee

Making a difference where it counts

Thursday 24th November 2016

10.00 am

Main Committee Room
Council Offices
Brympton Way
Yeovil
BA20 2HT

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

The 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, **Becky Sanders 01935 462596**, website: www.southsomerset.gov.uk

This Agenda was issued on Wednesday 16 November 2016.

Ian X. Clarke

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

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

INVESTORS IN PEOPLE

Audit Committee Membership

The following members are requested to attend the meeting:

Chairman: Derek Yeomans
Vice-chairman: Tony Lock

Jason Baker
Mike Beech
Mike Best
Carol Goodall
Val Keitch
Graham Middleton
David Norris
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.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting.

Any member of the public has the right not to be recorded. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:
http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf

Information for the Public

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

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

The terms of reference of the Audit Committee are:

Internal Audit Activity

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

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

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

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

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

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

External Audit Activity

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

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

Regulatory Framework

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

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

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

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

Financial Management and Accounts

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

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

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

Overall Governance

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

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

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

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

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

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

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

Audit Committee

Thursday 24 November 2016

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on 29 September 2016.

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 next meeting

Councillors are requested to note that the next Audit Committee meeting is earlier than normal due to Christmas. The next scheduled meeting is due to be held at 10.00am on 15 December in Council Chamber B, Brympton Way, Yeovil.

Items for Discussion

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Annual Audit Letter

Chief Executive: *Alex Parmley*
Lead Officer: *Donna Parham, Finance and Corporate Services*
Contact Details: *donna.parham@southsomerset.gov.uk or (01935) 462225*

Purpose of the report

This report introduces the annual audit letter for the 2015/16 financial year.

Recommendation

The Audit Committee is asked to:

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

Introduction

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

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

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

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

Statement of Accounts

An unqualified opinion was given on the Statement of Accounts.

The Value for Money Conclusion

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

Objection to the Accounts

One of the two objections to the 2013/14 accounts has not yet been finalised. The objection regarding the renegotiation of S106's was not upheld and the remaining objection regarding a planning matter can now be assessed as the Judicial Review has been concluded. A report regarding the objections will be made to the Audit Committee once the overall outcome is fully known.

Financial Implications

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

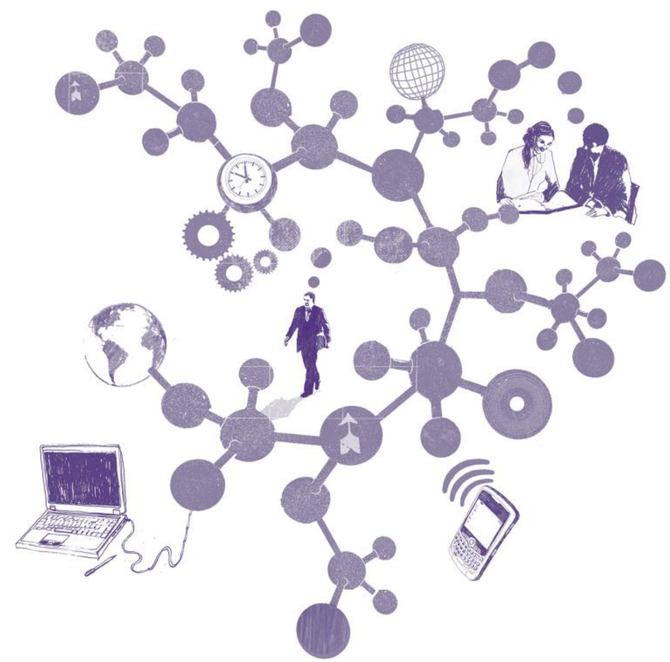
Background Papers

SSDC Audit Findings Report

The Annual Audit Letter for South Somerset District Council

Year ended 31 March 2016

21 October 2016



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Contents

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at South Somerset District Council (the Council) for the year ended 31 March 2016.

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

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 26 July 2016.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 July 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 July 2016

Certificate
We are currently unable to certify that we have completed the audit of the accounts of South Somerset District Council as we have not yet completed work in respect of objections received.

Certification of grants
We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

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

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1,613,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration and auditor's remuneration.

We set a lower threshold of £5,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

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The scope of our audit

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

This includes assessing whether:

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

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

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

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

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

Audit of the accounts

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

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Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period .The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	As part of our audit work we have: • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 July 2016, in advance of the 30 September 2016 national deadline.

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

The Council provided the accounts for audit at the end of June, a month ahead of the statutory deadline, which allowed us to complete our audit and issue the opinion on the accounts before 31 July 2016.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 26 July 2016.

In addition to the key audit risks reported above, we identified the following issue during our audit that we have asked the Council's management to address for the next financial year:

- Three assets within Land and Buildings were not updated to reflect the external valuation expert's assessment for 2015/16. Impairment of £60k and upwards revaluation of £138.5k was required.

Annual Governance Statement and Narrative Report

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

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

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

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed recommendations to address our findings.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Risk identified	Work carried out	Findings and conclusions
Medium Term Financial Strategy The challenge of meeting the savings outlined by the Chancellor as part of the Autumn Statement continues to put pressure on Local Government Finances. The delivery of the Financial Strategy, and associated savings, is currently reliant on the continuation of the New Homes Bonus and transformational changes. The continued economic pressures further enforce the need for the Council to identify alternative methods of achieving a sustainable financial position for the future	We reviewed the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks. We reviewed the robustness of the Council's financial plans and the extent to which the Council is seeking to identify alternative solutions to mitigate the risk of future cuts in resources and government funding .	The Medium Term Financial Strategy (MTFS), presented to the Executive in January 2016, outlines how the Medium Term Financial Plan (MTFP) (i.e. the budget) will be delivered over the medium to long-term. The MTFP at South Somerset spans three years with a further two years added to show the likely longer-term picture. The Medium Term Financial Strategy links the resources required to deliver the Council Plan and the Council's strategies Currently the MTFP shows a projected gap for each year of the plan. The figures include all estimates for pay awards, council tax, business rates, Government grant and inflation The budget gaps identified need to be tempered by the fact that assumptions over income and expenditure from 2018/19 onwards are not as complete as in prior years due to unknown factors that the Council cannot predict such as, levels of RSG, changes to business rates arrangements and changes to Council Tax arrangements. The updated MTFS, presented to the Executive in September 2016 shows a reduced budget deficit gap of approximately £800k for 2017/18. This is a much improved position from that reported as at the end of the year and is indicative of the continued efforts being made by the Council to identify savings to address projected budget deficits The Council has a requirement to identify ways in which savings can be achieved and has formed four separate boards to help identify savings and income generation opportunities. Review of the first two areas found that although not scheduled to deliver until 2017/18 projects outlined had been done so on a reasonable basis and a robust methodology for calculation of savings had been used as demonstrated by the updated MTFS The uncertainty in ongoing government funding and the deficit gap outlined in the MTFP present a pressing and urgent need for the Council to pro-actively identify and implement savings programmes. The review of documentation and through discussion with management it is considered that these requirements have been, and continue to be, fully considered and implemented. Whilst recent reporting indicates that the issue is being addressed it is not possible to say that the programmes will provide the savings required on a continuing basis although the governance and approach implemented by the Council is considered robust and appropriate. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

Value for Money

Risk identified	Work carried out	Findings and conclusions
Council Tax Collection Rates The Council continue to have one of the lowest collection rates in the South West and the country with performance in 2015/16 comparable to 2014/15 at around 97%. With the increased pressure on local government finances and the need to maximise and fully utilise incoming resources collection of Council Tax will be vital to the continuing provision of services by the Council	We reviewed the council's arrangements to improve collection rates and monitor their effectiveness including how robust the Council's estimates and targets are.	The 2014/15 VfM conclusion identified that South Somerset's collection rate for Council tax was 97% which was a fall from the prior year figure of 97.4%. This meant the Council was in the worst performing quartile of all district councils. As a result of this process the Council took on four extra staff to deal with the collection issue and also the backlog that had occurred from failure to collect arrears previously by the Council The target for 2015/16 was 95% which is very low given that a collection rate of 97% is amongst the lowest quartile for all district councils nationwide. The low target of 95% has allowed the council to report collection rates as green for the past two periods despite the relatively poor performance. The Council had a collection rate of 97.2% in 2015/16 which exceeds the target set. Similar sized district councils within the South West have a target rate of 98% which is considered achievable and realistic in terms of collection rates. In overview, 97% is the absolute minimum target given that this level has been attained across the past three financial years. The Council has set a target rate of 97.5% in 2016/17 which is considered appropriate and in line with the step change the Council are implementing and reflective of the £1.5m arrears that the Council cleared. The amount collected in the first quarter of 2016/17 is 29.8% against a target of 28.5% The collection rate for the past three financial years has been 97.4% in 2013/14, 97% in 2014/15 and 97.2% in 2015/16. This is indicative of the issue being addressed and, as such, that arrears are being reduced. The performance in 2015/16 still leaves the Council in the lower quartile and behind the national average of approximately 98%. The upward trend in collection rates means that the VfM conclusion was not qualified although concerns remain around the low target collection rate used by the Council for monitoring purposes. **We concluded that the risk was sufficiently mitigated for us to conclude that the Council has proper arrangements. We will continue to keep this under review.**

Value for Money

Risk identified	Work carried out	Findings and conclusions
Chief Executive Arrangements The joint temporary Chief Executive roles will be replaced by a permanent Chief Executive at a yet unspecified time. There is a risk that the continuing uncertainty affects decision making and the strategic direction of the organisation.	We will review the current arrangements the governance to ensue that strategic decisions are clear, properly reviewed, implemented and monitored.	Since 1st August 2015 SSDC operated without a substantive Chief Executive Officer (CEO) following the decision to cease the contractual arrangement with East Devon District Council. In July 2015 Full Council authorised a group of 4 members consisting of the Leader, Deputy Leader, Leader of the Conservative Group and Spokesperson for the Independent members. The starting point was a consideration of whether the Council could operate satisfactorily with just two senior officers; a CEO and one Director. During this period there was a continuation of the reporting process into the Executive and the Council through quarterly performance reports and continual monitoring of the finance position. The Council continued to review and update the Council Plan which runs for a period of five years from 2016 to 2021. Alongside the continued objectives a further priority that has been added for the new plan in High quality, cost effective services. The purpose of the plan is to allow the Council to make savings to meet future budget shortfalls with the intention that front-line services are protected wherever possible. The arrangements of joint, rotating, interim Chief Execs cover a period with Devolution and potential Joint Authority business case work requiring significant additional work. Recommendation for a single interim Chief Executive was made with the options to review at any point within the 6 month period. The Council appointed a single interim Chief executive and have subsequently appointed a permanent Chief Executive. The Council's performance as outlined in the Council's outturn performance report indicates that governance was not adversely affected by the appointment of joint temporary Chief Executives. The operational side of the process was considered to have not worked satisfactorily and therefore the Council took the decision to appoint a single temporary Chief Executive, pending appointment to a permanent post. The appointment has now been made and the new Chief Executive is in post. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

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Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit before July 31 which is the statutory deadline for the audit in 2017/18 and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included Audit Committee effectiveness and Devolution. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services. We ran a bespoke seminar on income generation for your project board and you attended our free income generation workshop in October 2016.

We provided insight and advice from our Local Government Advisory team and discussed options for income generation with Council members

Working with you in 2016/17

We will continue to work with you and support you over the next financial year in addition to continuing the support we have provided in 2015/16.

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit and working with you to build on your success early closure of your accounts in advance of the faster close requirement in 2017/18.
- Understanding your operational and financial health – we will continue to focus our value for money conclusion work on your financial health, and consider the evolving arrangements for ensuring savings are realised in future years.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	49,276	49,276	65,701
Housing Benefit Grant Certification*	8,052	8,052	13,990
Total fees (excluding VAT)	**57,328**	**57,328**	**79,691**

*This work is ongoing and may be subject to a change in the final fee based on the work required to certify the claim

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Reports issued

Report	Date issued
Audit Plan	19 April 2016
Audit Findings Report	26 July 2016
Annual Audit Letter	Xx xxxx xxxx

Fees for other services

Service	Fees £
Non-audit services	
Investors in People Accreditation	10,020

Grant Thornton

grant-thornton.co.uk

SWAP Internal Audit - Quarter 2 2016/17 Update

Head of Service: *Gerry Cox, Chief Executive - SWAP*
Lead Officer: *Moya Moore - Assistant Director*
Contact Details: *moya.moore@southwestaudit.co.uk*

Purpose of the Report

This report provides an update on the position of the Internal Audit Plan at the end of Quarter 2 2016/17.

Recommendation

To note the progress made.

Background

The Audit Committee agreed the 2016/17 Internal Audit Plan at its March 2016 meeting. This report is to inform the Audit Committee of progress against the Audit plans for 2016/17.

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *None*

South Somerset District Council

Report of Internal Audit Activity

Plan Progress 2016/17 Quarter 2

Contents

The contacts at SWAP in connection with this report are:

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Internal Audit Plan Progress 2016/17 Quarter 2

Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee at its meeting on 24 March 2016.

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

- Operational Audit Reviews
- Cross Cutting Governance Audits
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Outturn to Date:

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

Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2016/17.

It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective "assurance opinion" rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit "Audit Framework Definitions" as detailed on pages 7 and 8 of this document.

In the period Quarter 2 work has progressed on the following audits from the 2015/16 Audit Plan:

- Risk Strategy & TEN Risk Management – Partial - Final

In the period Quarter 2 work has progressed on the following audits from the 2016/17 Audit Plan:

- IT Audits – work on an IT skills audit is currently being scoped – Scoping work in Progress
- Culture – In Progress – Although we have experienced delays in obtaining approval from SSDC regarding the scope of work.
- Safeguarding – In Progress
- Land Charges – Discussion Document Stage.
- Delivering Cost Savings and Increasing Income – In Progress

Outturn to Date:

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

Internal Audit Work Programme Continued

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a ‘Partial Assurance Opinion’ have been summarised in Appendix D.

However, in circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised in Appendix C. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.

Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, Members requested that we provide them with examples of where we have "added value" to a particular service or function under review. In response to this we have changed our approach and internal processes and will now formally capture at the end of each audit where we have "added value".

The SWAP definition of "added value" is "it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost".

As we complete our operational audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. Examples in Quarter 2 include the following:

- A benchmarking report on income generation has been shared with SSDC, based on SWAP partner information.
- A benchmarking report on debt management has been shared with SSDC, based on SWAP partner information.
- We have shared a paper on joint working arrangements based on information gathered from within SWAP.
- We are in the process of collating benchmarking information on Equality Impact Assessments (which SSDC has contributed to).
- We shared a document called "What every Director should know – How to get the best from Internal Audit" which was a good summary of best practice in relation to Internal Audit Services.

The Assistant Auditor for SWAP

SWAP Performance

reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP now provides the Internal Audit service for 23 bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2016/17 year (as at 1 Nov 2016) are as follows;

Performance Target	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion In progress	 15% 52%
Draft Reports Issued within 5 working days	100%
Final Reports Issued within 10 working days of discussion of draft report	50%
Quality of Audit Work Customer Satisfaction Questionnaire	80%

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

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Approved Changes to the Audit Plan

The following changes have been made to the audit plan in Quarter 1 to ensure internal audit resources are focused on the key risks faced by the Council. All changes are made in agreement or at the request of the Section 151 Officer:

- Contract Compliance – PPR Compliance was removed at the request of the client as this area had recently been reviewed by the South West Counter Fraud Partnership. It was replaced with a review of Corporate Procurement Cards which was originally scheduled for Quarter 1 2016/17. A replacement audit has yet to be determined.
- IT Audits – Following a meeting of the Corporate Governance Group, an audit on IT Skills is currently being scoped.

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **Substantial**
- **Reasonable**
- **Partial**
- **None**

Audit Framework Definitions

Control Assurance Definitions

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

Categorisation of Recommendations

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

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendation are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Audit Framework Definitions

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

Definitions of Risk

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

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5= Major		↔		1 = Minor
						Recommendation				
						5	4	3	2	1
2015/16										
Operational	Risk Strategy & TEN Risk Management	4	Final	Partial	10	0	4	3	3	0
2016/17										
Operational	TBA to replace Corporate Procurement Cards completed 2015/16	1	Not Started		0	0	0	0	0	0
Advice	Follow Up Contingency	1	Not Started		0	0	0	0	0	0
ICT	IT Skills Audit	1	In Progress		0	0	0	0	0	0
Operational	Culture	1	In Progress		0	0	0	0	0	0
Operational	Yeovil Cemetery & Crematorium Annual Accounts	1	Final	Non Opinion	0	0	0	0	0	0
Grant Certification	Boden Mill & Chard Regeneration Scheme Statement of Accounts	1	Final	Non Opinion	0	0	0	0	0	0
Operational	Safeguarding	2	In Progress		0	0	0	0	0	0
Healthy Organisation	Corporate Governance	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Financial Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Risk Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Performance Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Commissioning & Procurement	2	Not Started		0	0	0	0	0	0
Healthy Organisation	Programme & Project Management	2	Not Started		0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5= Major ↔ 1 = Minor Recommendation				
						5	4	3	2	1
Healthy Organisation	Information Management	2	Not Started		0	0	0	0	0	0
Healthy Organisation	People & Asset Management	2	Not Started		0	0	0	0	0	0
Operational	Delivering Cost Savings & Increasing Income	2	In Progress		0	0	0	0	0	0
Operational	Land Charges	2	Discussion Document		0	0	0	0	0	0
Operational	Key Income Streams	3	Not Started		0	0	0	0	0	0
Operational	Corporate Health & Safety	3	Not Started		0	0	0	0	0	0
Key Control	Provision - Key Financial Control Audit	3	Not Started		0	0	0	0	0	0
Operational	Local Council Tax Support Scheme	3	Not Started		0	0	0	0	0	0
Operational	Scheme of Delegation	3	Not Started		0	0	0	0	0	0
Operational	Leisure East Devon	4	Not Started		0	0	0	0	0	0
Operational	Data Protection	4	Not Started		0	0	0	0	0	0
Operational	Elections	4	Not Started		0	0	0	0	0	0
Operational	Lufton Vehicle Workshop	4	Not Started		0	0	0	0	0	0

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

Ref	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
1	Risk Strategy & TEN Risk Management	See Appendix D	Business objectives are not achieved due to failure to anticipate future uncertainties or events.	See Appendix D			

Summary of key points related to 'Partial Assurance' reviews

Audit Tittle	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
Risk Strategy & TEN Risk Management 2015/16	The Council's Corporate Objectives are not linked to Strategic Risks.	The Assistant Director – Finance and Corporate Services, has agreed to ensure, in consultation with the Management Board, that each of the Council's corporate priorities are risk assessed and the risks included on the risk register. The Assistant Director – Finance and Corporate Services has agreed to ensure that any risk on the risk register can be directly (and easily) linked to the relevant Corporate Priority to which it relates.	31/3/17 30/4/17	Qtr 1 2017/18 Qtr 1 2017/18
	Risks are not reported to Members frequently enough.	The Procurement and Risk Manager has agreed to confirm with the Audit Committee the frequency of reporting required by them (with a move to twice a year being preferable to keep members informed), and will offer training on access to the risk management software system.	31/3/17	Qtr 1 2017/18
	Risks are not monitored by Management Board as part of a regular monitoring cycle.	The Assistant Director – Finance and Corporate Services has agreed to ensure that the frequency and extent of risk reporting to the Management Board is formally established so that the leadership team are clear on their roles and responsibilities to review and monitor risks and have a framework in which to do this.	31/3/17	Qtr 1 2017/18

Property Services Update on Audit Action Report: Security and Repairs 2015/16

Assistant Director:	*Laurence Willis, Environment*
Service Manager:	*Garry Green, Property and Engineering Services Manager*
Lead Officer:	*Garry Green, Property and Engineering Services Manager*
Contact Details:	*Garry.green@southsomerset.gov.uk or 01935 462066*

Purpose of the Report

To update Members on the progress and the implementation of the recommendations and agreed actions arising from the above report.

A partial assurance was given in the final report dated the 8th June 2016.

A follow up report has been undertaken by SWAP dated the 14th October 2016 for priority ratings 4 or above.

Public Interest

As part of the 2015/16 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for the security and maintenance of SSDC properties.

This also included a review of the arrangements for monitoring repair and maintenance responsibilities for SSDC let properties.

SSDC have their own Property Services department which oversees the security and maintenance of all SSDC owned properties.

The report details the audit report and recommendations and the agreed actions and updated progress relating to the report.

Recommendations

(1) That members note the details of the initial SWAP Agreed Action Plan.

(2) That members note the details of the follow up audit report and that all recommendations have been actioned and approved by audit, with one category 3 item still in progress

Background

An audit on Property Services was carried out on the Security and Repairs of our buildings and a final report issued on the 8th June 2016

A partial assurance was given and the following were identified as key findings for the service and therefore categorised, in accordance with the definitions attached, as a level '4' or '5' priority in the action plan.

1) Annual Condition Surveys are not on schedule. There is a risk that maintenance faults may not be identified without regular condition surveys being performed, which may lead to injury or significant property damage over time.

2) The Condition Surveys are not updated to definitively state what action is required and when this action is due, and to record any changes/slippages to the plan. There is a risk that without up to date information uninformed decisions could be made.

Other findings related to:

a) No formal key handling and lock changing guidance being available to all staff
b) Checks and assurances to be made before the new 'HEAT' system was introduced replacing the present PSR (property services request) system, and
c) Clarification required on repair responsibilities on properties occupied by tenants especially when tenancies are coming to an end

The action plan detailed the management responses and timescales for the agreed actions

The follow up report details the status of the agreed action plan and progress made to address the initial concerns.

Further details may be viewed in the full audit reports attached under the background papers

Implementation of Action Plan and Recommendations

The key findings outlined above in the initial report have now been actioned and audit have stated in the follow up report dated 8th November 2016.

Although the findings and recommendations in the initial report were agreed the Property and Engineering Services Manager has outlined in his responses some mitigating reasons to these findings, such as individual responsibility of Service Managers for their own staff and the Property team being involved in other projects resulting in slippage of condition surveys.

However, these issues have now been addressed as the updated report has concluded.

Financial Implications

None

Council Plan Implications

High quality cost effective services:

- Actively manage assets and resources to ensure the best financial or community return.
- Optimise council assets to increase use or receive income

Carbon Emissions & Climate Change Implications

Not applicable

Equality and Diversity Implications

Not applicable

Background Papers

- Appendix A - SWAP Agreed Action Plan
- Appendix B - Follow up Audit Report dated 8th November 2016

Property Services – Security and Repairs **Appendix A - SWAP Agreed Action Plan**

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Objective: **To gain reasonable assurance that the Council's buildings are protected from damage through unauthorised access or because of the state of repair.**					
1. Buildings are not secure.					
1.1a There is no formal key handling and lock changing guidance available.	I recommend that the Property and Engineering Services Manager ensures that formal guidance for key security and lock changing procedures is made available to all SSDC staff who are responsible for property security. *SWAP Ref: 31781*	3	Service managers are responsible for ensuring any leavers hand over ID passes and property keys which are to be returned to Property Services. These rules will be confirmed in new guidance notes There have been no issues to date that have warranted an unnecessary expense of changing locks periodically but guidance will be issued when this action will be necessary.	Property and Engineering Services Manager/Principal Property Management Officer.	30th September 2016

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
2. Buildings fall into disrepair.					
2.1a Annual Condition Surveys are not on schedule.	I recommend that the Property and Engineering Services Manager ensures that condition surveys are conducted annually for all SSDC properties. *SWAP Ref: 32186*	4	Agree there has been some slippage in the condition surveys with the surveyors being involved in other projects. This will be addressed and surveys allocated to various staff and monitored with specific timescales	Property and Engineering Services Manager/Principal Property Management Officer.	31st July 2016
2.1b Condition Survey reports do not definitively state what actions are required and when they will take place. Condition Survey reports are not updated to record changes and/or slippages to the plan.	I recommend that the Property and Engineering Services Manager ensures that condition surveys are regularly reviewed and updated to definitively state what action is required and when this action is due, and to record any changes/slippages to the plan. *SWAP Ref: 32459*	4	Agree. Condition survey forms are being amended to reflect present status at time of survey and when works are to be scheduled. Comments to be added to state reasons for any delays	Property and Engineering Services Manager/Principal Property Management Officer.	31st July 2016

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
2.2a The existing 'Property Services Request' (PSR) system will soon be replaced by the new 'HEAT' system, which amongst other improvements, is intended to improve repair monitoring capabilities.	I recommend that the Property and Engineering Services Manager ensures that in advance of the implementation of the new 'HEAT' system, checks are carried out to gain assurance that those issues previously identified with the existing 'PSR' system have been rectified and that appropriate training on the use of the new 'HEAT' system has been administered. *SWAP Ref: 31808*	3	This is happening at present and system will not be allowed to replace the existing PR system until we are satisfied it is fit for purpose	Principal Property Management Officer/Property Management Officer.	31st August 2016
2.3a It is not always clear to Property Services how repair responsibility has been delegated for SSDC properties occupied by tenants and when tenancies are coming to an end.	I recommend that the Property and Engineering Services Manager ensures that the Estates Asset Management system is utilised in order to view repair responsibilities for let SSDC properties and to inform staff of tenancy end dates. *SWAP Ref: 31871*	3	Agree. Intention to liaise with the senior land and property officer on best practice to ensure tenancy agreements are known along with individual responsibilities Potential training and access to the Estate Asset Management system to be investigated	Property and Engineering Services Manager/ Senior Land and Property Officer (Estates).	31st October 2016

Property Services 2015/16 – Security and Repairs

Follow Up 2016/17

Final Report

Issue Date: 8th November 2016

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

Overview

As part of the 2016/2017 audit plan a follow up audit has been undertaken to assess the implementation of the Security and Repairs recommendations arising from the Property Services audit conducted in June 2016. The purpose of this follow up audit is to provide assurance to the Director, Senior Managers and the Audit Committee, that the agreed actions to mitigate risk exposure have been implemented.

Progress against Agreed Actions

The Security and Repairs audit issued on 8th June 2016 was given a Partial level of assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

A total of five recommendations were made; two at a Priority 4 level and three at Priority 3.

Table 1 below identifies a summary on the progress made in regards to implementing control to mitigate the risk established for the nine recommendations.

	Complete	In Progress	Not Started	Not Due
Priority 4	2	0	0	0
Priority 3	2	1	0	0
Priority 2	0	0	0	0
Total	**4**	**1**	**0**	**0**

The only recommendation still in progress is the subject of ongoing action to fully implement.

1.	Risk: Buildings are not secure

1.1a	Recommendation		Priority 3
I recommend that the Property and Engineering Services Manager ensures that formal guidance for key security and lock changing procedures is made available to all SSDC staff who are responsible for property security.			
Action Plan:			
Person Responsible:	Property and Engineering Services Manager/Principal Property Management Officer.	Target Date:	30th September 2016
Management Response:	Service managers are responsible for ensuring any leavers hand over ID passes and property keys which are to be returned to Property Services. These rules will be confirmed in new guidance note. There have been no issues to date that have warranted an unnecessary expense of changing locks periodically but guidance will be issued when this action will be necessary.		
Follow up action:			**Complete**
Formal Guidance has been completed and circulated to all service managers to action. This will also be entered on to the TEN system as a 'risk'.			

2.	Risk: Buildings fall into disrepair

2.1a	Recommendation		Priority 4
I recommend that the Property and Engineering Services Manager ensures that condition surveys are conducted annually for all SSDC properties.			
Action Plan:			
Person Responsible:	Property and Engineering Services Manager/Principal Property Management Officer.	Target Date:	31st July 2016
Management Response:	Agree there has been some slippage in the condition surveys with the surveyors being involved in other projects. This will be addressed and surveys allocated to various staff and monitored with specific timescales.		
Follow up action:			**Complete**
A schedule of property surveys has been drawn up and circulated to individual officers for completion. These are being monitored by the Property Manager and also dealt with under internal liaison meetings. Larger condition surveys have been outsourced to our Building Surveyor Consultants, Kirkham Board Associates.			

2.1b	Recommendation		Priority 4
I recommend that the Property and Engineering Services Manager ensures that condition surveys are regularly reviewed and updated to definitively state what action is required and when this action is due, and to record any changes/slippages to the plan.			
Action Plan:			
Person Responsible:	Property and Engineering Services Manager/Principal Property Management Officer.	Target Date:	31st July 2016
Management Response:	Agree. Condition survey forms are being amended to reflect present status at time of survey and when works are to be scheduled. Comments to be added to state reasons for any delays.		
Follow up action:			**Complete**
The Condition Survey template and recording form has been amended to reflect the above.			

2.2a	Recommendation		Priority 3
I recommend that the Property and Engineering Services Manager ensures that in advance of the implementation of the new 'HEAT' system, checks are carried out to gain assurance that those issues previously identified with the existing 'PSR' system have been rectified and that appropriate training on the use of the new 'HEAT' system has been administered.			
Action Plan:			
Person Responsible:	Principal Property Management Officer/Property Management Officer.	Target Date:	31st August 2016
Management Response:	This is happening at present and the system will not be allowed to replace the existing PR system until we are satisfied it is fit for purpose.		
Follow up action:			**Complete**
The HEAT system is now in operation and advance meetings have been held with IT to resolve and test the new system. However, IT wanted to implement it as soon as possible so further meetings and actions needed have taken place to resolve ongoing problems.			

2.3a	Recommendation	Priority 3
I recommend that the Property and Engineering Services Manager ensures that the Estates Asset Management system is utilised in order to view repair responsibilities for let SSDC properties and to inform staff of tenancy end dates.		

Action Plan:			
Person Responsible:	Property and Engineering Services Manager/ Senior Land and Property Officer (Estates).	Target Date:	31st October 2016
Management Response:	Agree. Intention to liaise with the senior land and property officer on best practice to ensure tenancy agreements are known along with individual responsibilities Potential training and access to the Estate Asset Management system to be investigated.		

Follow up action:	**In Progress**
There is ongoing communication between the Council and Estates to access information on the relevant properties. The Property and Engineering Services manager has instructed that full condition surveys are carried out on these properties regardless and any identified remedial/actions checked against the tenancy agreements to identify responsibilities. If any are found to be the tenant's responsibility then the Senior Land and Property Officer will be notified to inform the tenant accordingly.	
Revised implementation date:	Ongoing
Revised responsible Officer:	Property and Engineering Services Manager

Audit Framework and Definitions

Categorisation of Recommendations	
When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.	
Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.
Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.	

Report Summary

Report Authors

This report was produced and issued by:

- Moya Moore
- Josie Baker
- Edward Nichols

Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

- Garry Green
- David Coombs

Distribution List

This report has been distributed to the following individuals:

- Garry Green - Property and Engineering Services Manager
- David Coombs - Principal Property Management Officer
- Donna Parham - Assistant Director (Finance and Corporate Services)
- Vega Sturgess - Strategic Director (Operations and Customer Focus)
- Gerry Cox - Chief Executive (SWAP)

Working in Partnership with

Dorset County Council	Somerset County Council
East Devon District Council	South Somerset District Council
Forest of Dean District Council	Taunton Deane Borough Council
Hereford Council	West Dorset District Council
Mendip District Council	West Somerset Council
North Dorset District Council	Weymouth and Portland Borough Council
Sedgemoor District Council	Wiltshire Council

Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsiblity

Please note that this report has been prepared and distributed in accordance with agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person.

Proposed Freedom of Information Requests Policy

Assistant Director: *Ian Clarke, Legal and Corporate Services*
Service Manager: *Lynda Creek, Fraud and Data Manager*
Lead Officers: *Lynda Creek, Fraud and Data Manager*
Zac Tredger, Fraud and Data Intern
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Purpose of the Report

The purpose of this report is to inform members of a proposed policy for the management of Freedom of Information Requests (FOIs) under the Freedom of Information Act (FOIA) and the Environmental Information Regulations (EIR). The Policy seeks to redress the balance between the administrative burden and the mitigation of risks arising out of any potential non-compliance with these statutes.

Public Interest

Proper compliance with freedom of information legislation builds trust between this Council and its community by enabling the people to engage more with what we do and why we do it, the press to better inform the electorate, and local businesses to acquire information to support enterprise and growth.

Recommendation

That Audit Committee recommend approval of the Freedom of Information Requests Policy to District Executive.

Background

The Environmental Information Regulations (EIR) and Freedom of Information Act (FOIA) were brought into force in 2005, giving all persons right to access (on request) environmental information, and any information not accessible under other legislation, respectively. Public authorities must respond appropriately to FOI requests within prescribed timescales, releasing all requested information which is held and not exempt from disclosure (under an exemption given in the legislation).

There are also ancillary duties relating to the potential issuing—on request—of licences to re-use the information disclosed by the Council where the Council has intellectual property rights. This licence is typically an Open Government Licence under the Re-use of Public Sector Information Regulations (RPSI), which came into force in 2015.

The Council received in excess of 1,200 requests for information under the EIR or FOIA in the 2015 calendar year. Officers sometimes struggle to differentiate between FOIA and EIR requests and to then deal with them appropriately. It is estimated that 15% of all requests are not answered within the appropriate time-limit.

The Council's current policy was produced in 2000, when the FOIA first became law, and a fundamental review and assessment of the law and key procedural issues was necessary to make it 'fit for purpose' having regard to the volume of requests now being received, which the Information Commissioner's Office noted was comparable with that of central government bodies such as the Foreign & Commonwealth Office (see the Mitigating Risk

Subsection below). The review showed that the approved procedures for addressing the management of information requests have not been consistently applied and many had been established by practice within and between services.

Approximately 80% of FOI/EIR requests are sent to the Legal email inbox, of which about 85% are then referred to the relevant service(s) for input. Officers in other services are supposed to log the requests they receive directly and notify Legal when they communicate with the applicant about a request transferred to them by Legal. This enables the Legal Assistants to keep the central log of FOI requests up to date. Unfortunately the review found this does not happen consistently.

The EIR permits the Council to charge for staff time spent managing a request for information but the FOIA does not. Roughly 50% of requests received by the Council in 2015 were for environmental information so could have been chargeable.

Introduction to Proposed Policy including Novel Procedures

The Policy will be accompanied by a detailed guidance document to assist officers to manage these requests (a copy of the guidance document can be provided to members upon request). An Explanatory Note is provided in Part III of the Policy, which introduces and explains the novel rules, procedures and concepts and the reasons why these changes are needed.

Financial Implications

Revenue and Cost Recovery
In 2015 the Council received more than 600 requests for environmental information. The review found that many of these requests were incorrectly classified as FOIA requests, for which no charge was made. Requests under the EIR can be charged for staff time (on a pro-rata basis) at £25 per hour and part of the plan is to increase understanding within the Council amongst the teams dealing with requests so that in future charges are levied where appropriate.

Requests under either the FOIA or EIR can be charged (in-advance) to recover the cost of materials necessary for their management, but only if a charging schedule has been published; such a schedule is now available on the Council's website and is provided in Schedule I in the Policy. The ability to charge will help to recover the costs incurred in compliance and may discourage the submission of baseless or disproportionately broad requests.

Mitigating Risk
In July the Information Commissioner's Office (ICO)—(the regulatory body for data law matters) examined the Council's FOI compliance statistics following a complaint about the timeliness of our responses. Information was provided to show that the Council was already alert to the issue and had started reviewing and streamlining its procedures to address the underlying issues. The ICO indicated that he would be revisiting the matter in the New Year, to see what progress had been made.

There is a regime of fines and other sanctions which may be levied by the ICO when requested information is unlawfully deleted or altered, or if the Council fails to comply with an ICO enforcement notice and is held in contempt of Court. The Council may also be fined if personal data are disclosed to a third party unlawfully. The ICO may take other actions causing the Council's prestige to suffer and our relationship with our citizens, the press and local businesses to deteriorate. The new procedures and Policy seek to reduce the risk of action by the ICO and improve our overall management of requests.

Council Plan Implications

The recommended Policy will support the promotion of high quality, cost effective (front line) services, specifically by mitigating and recovering costs whilst doing more to ensure that a consistent high quality service is provided for persons seeking information in pursuit of the public interest.

Consultation Feedback

The Policy was sent to the Unions and the Corporate Performance Team for consultation, and their recommendations were either implemented or rejected with a reason.

Carbon Emissions & Climate Change Implications

This Policy has no carbon emissions or climate change implications.

Equality and Diversity Implications

Equality analysis is ongoing in conference with the Equalities Officer. All issues initially highlighted have been resolved satisfactorily, but we await final confirmation that the draft Policy meets the General Equality Duty in its current form.

Background Papers

- Appx A - Draft Freedom of Information Request Policy (Including Charging Schedule)

FREEDOM OF INFORMATION REQUESTS POLICY

(For the Management of Requests under the FOIA, EIR and RPSI)

Issue details	
Title:	Freedom of Information Requests Policy
Policy Group:	Conduct
Issue and version number:	Issue 1 Version 1
Officer/Panel Controlling Procedure:	Fraud and Data Manager
Authorisation Level:	Audit Committee / District Executive
Authorisation Date:	x/y/z
Review date:	

Lynda Creek – Fraud and Data Manager
Zac Tredger – Fraud and Data Intern

September 2016

Contents

DRAFT

Part I: The Rules

1 Introduction

Scope

1.1 The Council has a duty to manage Freedom of Information (FOI) requests under the Freedom of Information Act 2000 (FOIA) and Environmental Information Regulations 2004 (EIR), and requests for re-use under the Re-use of Public Sector Information Regulations 2015 (RPSI). This Policy sets out the rules officers must follow to ensure the Council complies with this legislation.

(a) Except when it falls under one of the types in (b), a request for information is an FOI request falling under the scope of the legislation and this Policy when it is likely that the requestor's intent was to ask for information which they believe we may hold in material or electronic form. Whether the requestor labels their request an FOI is irrelevant.

(b) Management of the following types of information requests or data sharing arrangements are outside the scope of this Policy. They are addressed in guidance issued by the Fraud and Data Team instead. The types are:

(i) Subject Access Requests for the applicant's own personal data[1] under the Data Protection Act 1998 (DPA) (although these are often mistakenly submitted as FOI requests).

(ii) Data Processing Agreements for the processing of personal data on our behalf by a partner with whom we have a contract.

(iii) One-off data sharing requests for personal data, submitted by a Data Controller[2].

(iv) Data sharing agreements for repeated data sharing (as above) — (distinct from a Data Processing Agreement).

(v) Information shared in confidence[3].

1.2 Any breach of the FOIA, EIR, RPSI, part of the DPA related to disclosure, or the FOI and Data Protection (Appropriate Limit and Fees) Regulations 2004, resulting from the management of an FOI request, will be a breach of this Policy. This Policy does not restate the duties under the legislation. But the 'Guidance on the Management of Freedom of Information Requests' ("the Guidance") is provided as a guide to compliance.

1.3 If, and to the extent that, this Policy is incompatible with the Legislation listed in 1.2 or a related precedent in case law, officers shall act in accordance with either the Policy or the Law. If they do so, the Council will not hold them to be in breach of either.

Definitions

1.4 'FOI requests', as explained in 1.1, will hereinafter[4] be called 'requests'.

1.5 'Centrally Administered Requests' are requests managed b.

1.6 At all points during the processing of a request, the request must have a Responsible Officer, who is—

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[1] Personal data relate to a living individual who can be identified from those data, or from those data and other information in the possession of, or likely to come into the possession of, the Data Controller (q.v. Footnote 2).

[2] The Data Controller of any given personal data is the (natural or legal) person who determines the purposes and means of processing of that data.

[3] The exemption (q.v. Footnote 11) of the information under the FOIA or EIR (except for an exemption because the information is otherwise publicly available) is — almost without exception — a necessary condition for imposing confidence.

[4] Except when it is necessary to distinguish between FOI requests and requests for re-use (see the 'Requests for Re-use' Subsection under Section 4).

- the member of staff who originally received the request; or
- the member of staff to whom the request was transferred.

(a) Officers outside the Information Team will not be the Responsible Officer for a Centrally Administered Request, but may have duties[5] to help manage it.

(b) Services with a shared inbox must establish a rule or convention which ensures that each request coming into that inbox is assigned promptly to an officer. And that officer will become the Responsible Officer for that request.

1.7 The Responsible Officer will only stop being responsible when the request—

- has been answered and the necessary information recorded[6]; or
- is transferred to another member of staff (who then becomes the Responsible Officer).

1.8 The Responsible Officer is responsible for—

- ensuring the request is managed lawfully and in keeping with this Policy;
- all communications between the council and the applicant on the subject of the request; and
- recording the necessary information[7] in the log.

1.9 The Information Team referred to in this document comprises: the Fraud and Data Manager and their staff, the Legal Services Manager, and the Assistant Director (Legal and Democratic Services). Unless they request otherwise, all communications sent to the Information Team about requests should be sent to the Legal Inbox.

(a) A member of the Information Team may overrule any decision regarding the management of a request made by a Responsible Officer outside the Team.

(b) The Information Team may delegate certain duties to the Legal Assistants (as permitted in Paragraph 4.20). The Guidance will be updated to reflect such delegation.

1.10 Certain decisions can only be made by an 'Appropriate Officer', who is—

- the request's Responsible Officer, if an inter-service agreement (ISA) allows them to make the decision, (see 3.8 and 4.20); or
- a member of the Information Team (who need not be the Responsible Officer).

1.11 Any reference in this Policy to a 'reasoned opinion' is an indication that the reasons must be recorded[8] in the log.

1.12 The 'transfer' of a request occurs whenever responsibility for managing it moves from one Responsible Officer to another. This typically happens when the Information Team receive a request in a shared inbox they administer, and use their discretion under 4.3(b) to assign responsibility to a specific officer or service.

1.13 'Request related complaint' means any expression of dissatisfaction from a customer, arising out of the management of an FOI request or request for re-use.

Structure

1.14 Section 2 sets out the duties required of all officers in connection with requests, and Section 3 sets out duties of officers outside the Information Team. In those Sections the Responsible

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[5] These duties are set out in the 'Rules about helping to answer Centrally Administered Requests' Subsection of Section 3.
[6] Certain information must be recorded under Paragraph 1.17.
[7] Ibid.
[8] Ibid. 6.

Officer is addressed directly, except in the ‘Rules about helping to answer Centrally Administered Requests’ Subsection of Section 3, and elsewhere when any rule states otherwise. Section 4 sets out duties which are unique to officers in the Information Team. Those rules are only specific to Responsible Officers (with respect to any request) when a rule indicates this.

1.15 Under certain circumstances (typically when a decision is challenged) Internal Reviews must be conducted to assess, and if necessary overturn, decisions reached about a request. These are duties of the Information Team, and are set out in Section 5.

General

1.16 Responsible Officers must operate with a presumption in favour of disclosure, meaning that requested information which is held may only be refused if—

(a) it is not under the scope of the FOIA or the EIR;

(b) the request is under the FOIA and the information is publicly accessible by other means (except when it is only accessible on request)[9];

(c) in the opinion of an Appropriate Officer[10] it engages a qualified exemption[11,12], and in their reasoned opinion, disclosure is not in the public interest[13]; or

(d) in the opinion of an Appropriate Officer[14] it engages an absolute exemption[15] (other than an exemption engaged because the information is available from another source).

1.17 Certain information about the management of requests must be ‘recorded’ by the Responsible Officer, for its eventual inclusion in the Central FOI Requests Log held by the Information Team. Throughout this Policy the word ‘record’ will be used to indicate that this duty arises.

(a) Paragraph 3.5 sets out how the duty to ‘record’ information applies to Responsible Officers *outside* the Information Team.

(b) Paragraphs 4.7 and 4.8 set out how the duty to ‘record’ information applies to Responsible Officers *in* the Information Team.

1.18 Officers should consult the Guidance for detailed guidance on any aspect of managing requests.

2 Duties of all Council Officers

Identification and Receipt

2.1 You must — with appropriate frequency — screen all incoming communications for requests. Requests need not refer to the Legislation. You must record receipt.

2.2 Requests are received at the first instant they come into the Council’s possession.

(a) In the case of verbal requests[16], this instant is when a Council officer hears the request.

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[9] This refers to the exemption under Section 21 of the FOIA; note however that if we have published the information ourselves, directing the applicant to it (under 2.12(a)) is an answer to the request, not a refusal.
[10] ‘Appropriate Officer’ is defined in Paragraph 1.10.
[11] Exemptions are defined circumstances in which information under the scope of the (appropriate) legislation may be refused. More information is given in the ‘Exemptions and Exceptions’ Chapter of the Guidance.
[12] ‘Qualified Exemptions’ are defined as exemptions which only permit refusal if it is in the public interest.
[13] Guidance on the Public Interest Test is given in the ‘Public Interest Test’ Section of the Guidance.
[14] Ibid. 10.
[15] ‘Absolute Exemptions’ are defined as exemptions which do not require a Public Interest Test.
[16] Verbal requests may only be ‘received’ (for the purpose of 2.2) under the EIR, but the Guidance addresses verbal requests made under the FOIA.

2.3 You must take all reasonable steps to ensure that the request is answered within the statutory time-limit, which is—

- 20 working days in ordinary circumstances; or
- 40 working days where extension of the time-limit is appropriate, as set out in Paragraph 2.6.

(a) In all cases save in Paragraph 2.4 (below), the first day to count toward the statutory time-limit will be the first working day to commence after the request is received.

2.4 If you will be absent from work for any period you may set up an automatic 'out-of-office' response containing the following information:

- Notice that you are absent
- The date on which you are expected to return
- An alternative (monitored) email address to which requests may be redirected

(a) If you set up an 'out-of-office' response containing the above information and receive a request, the first day to count toward the time-limit will be the soonest of—

- the first working day to commence after the applicant redirects their request;
- the day on which the automatic reply stated you would return; and
- the first working day to commence after you return to work.

2.5 You must acknowledge receipt of a request if it has not already been acknowledged, and—

- the applicant asks for acknowledgement;
- the request was submitted to one email address and you expect the answer to be sent from a different one (typically because of transfer); or
- it is anticipated that the applicant may doubt that their request is being managed (in particular, if you expect an answer to take longer than the applicant might reasonably expect).

Extensions

2.6 You may extend the time-limit in the following circumstances:

(a) The request is under the FOIA, and in the opinion of an Appropriate Officer[17] a qualified exemption is engaged and additional time is required to conduct a public interest test. The extension applies only to the information which engages the exemption and any information not practically separable from it. Any remaining parts of the request must be answered within the ordinary time-limit.

(b) The request is under the EIR and the complexity and volume of the request makes it unlikely that it will be answered within the ordinary time-limit.

2.7 You must take reasonable steps to avoid extending the time limit after it has expired. When you extend the time limit you must record, and inform the applicant of: the revised deadline and the reasons for the extension.

Fees and Charges

2.8 You must calculate fees in keeping with the FOI and Data Protection (Appropriate Limit and Fees) Regulations 2004, using the standard charges in our Charging Schedule provided in Schedule I. You must record roughly how you calculated the fee. The Guidance contains more information on the calculation of fees.

(a) When you charge a fee, you must record this. You must also inform the applicant that they have 90 calendar days to pay the fee.

[17] Ibid. 10.

(b) If, 90 calendar days after you charge a fee, it has not been paid, you must record this and refuse the request, giving the applicant the information in 2.17(c).

2.9 If an applicant pays a fee, all officers who subsequently extract, collate or communicate, information must determine accurately the actual cost of doing so. You must calculate from these costs the accurate fee which would have been charged (if fees were charged in retrospect) and record this value. If this (retrospective) fee is less than the fee paid, you must refund the balance to the applicant; recording this also.

2.10 When a fee is paid, it must be distributed under an appropriate distribution arrangement mutually agreed between Financial Services and the services involved in managing the request. If no such arrangement exists, it must be distributed under the default distribution arrangement. This distribution must be recoded. To avoid potential administrative burden, monies must be distributed after 2.9 (above) has been complied with.

(a) The default distribution arrangement is that the service which incurred most of the cost in managing the request retains the entire fee.

Supply and Closure

2.11 You should contact the Information Team for advice if you think—

- the applicant may re-use the information, and this re-use would not be in the public interest; and
- the information may be the Council's intellectual property.

2.12 Information you disclose must be in the form (e.g. hard copy or electronic) requested by the applicant. If no preference is specified or supply in the requested form is unfeasible, you should use electronic communication as the default, where available.

(a) You may also direct the applicant to the information if we have made it publically available online, but only if the published information is reasonably up-to-date.

2.13 Information you disclose electronically must be in the file-type specified by the applicant. But if no preference is specified or supply in the requested file-type is unfeasible, you must use a re-usable and editable file-type, which is accessible to the applicant.[18]

2.14 If it is necessary to schedule an appointment to allow the applicant to inspect documents, you must schedule the appointment at any time within the applicable time limit. But if this would be unreasonable, you may schedule it at the next available opportunity.

2.15 You must record disclosures and appointments for inspection.

2.16 You must advise and assist the applicant in understanding the information disclosed, to the extent that allocating public resources to do so is in the public interest. When determining this extent, you should give particular consideration, when applicable, to—

- what you reasonably believe to be the purpose of the request;
- what background knowledge you reasonably believe the applicant to have; and
- the applicant's special requirements, particularly with respect to learning and communication.

2.17 You must answer every part of the request, by: refusing to confirm or deny, denying the information is held, disclosing, or refusing to disclose. You must record how you answer each part. Where appropriate you must also do the following:

[18] Guidance on Open Data standards is provided in the 'Supply and Closure' Subsection of the 'Summary of Information Request Procedure' Section of the Guidance.

(a) If (under 1.16) you refuse to disclose requested information, or refuse to confirm or deny, you must inform the applicant of: the exemption which is engaged, why it is engaged, and — for qualified exemptions — why disclosure is not considered to be in the public interest.

(i) The 'General' Subsection of Section 3 sets out when and how officers outside the Information Team may refuse requested information.

(b) If you refuse a request or a part thereof under 1.16(b) because the information is otherwise publicly available, you must tell the applicant *where* it is available.

(c) When the request has been answered (including refused) you must tell the applicant that—

- the Council considers the request to be answered;
- they may request that the Council conduct an Internal Review of the request; and
- they have the right to appeal to the Information Commissioner's Officer (ICO) (you should include details of how to contact this office).

(d) If the applicant requests a licence to re-use the disclosed information, you should transfer the request to the Information Team.

Complaints and Review

2.18 If you are aware of a request related complaint[19] you must ensure it is recorded it in the request's log entry.

2.19 The SSDC Complaints Policy must not usually be followed for request related complaints. But it must be if, and to the extent that, the complaint's basis is unrelated to, or bigger in scope than, the Council's obligations in connection with the related request.

(a) In the case of disagreement or uncertainty about applying the SSDC Complaints Policy under 2.19, uncertain or disagreeing officers should refer the matter to the Information Team. The Information Team will decide whether it is applicable.

(b) The duties arising under the SSDC Complaints Policy will be duties of the service manager responsible for the actions which predominantly gave rise to the matters which are the grounds for the complaint.

(i) In the case of disagreement or uncertainty regarding responsibility under (b), officers experiencing disagreement or uncertainty shall refer the matter to the Information Team. The Information Team will decide who is responsible.

2.20 Request related complaints which challenge or query a decision reached in the management of the request must be considered for Internal Review. Immediately on receipt of such a complaint you must ensure that the Information Team—

- is aware of the complaint;
- has access to the up to date log entry; and
- has access to all correspondence with the complainant on the subject of the request.

3 Duties of Officers outside the Information Team

General

3.1 The duties in this Section are required of officers outside the Information Team. Some duties are required to enable the upkeep of the Central FOI Requests Log[20].

[19] As defined in 1.13.

[20] The Central FOI Requests Log enables the Council to respond to any challenge to the legality or fairness of its decisions, as well as to calculate aggregated costs under certain circumstances explained in the 'Fees, Charging and Costs' chapter of the Guidance.

3.2 You may apply an exemption which is engaged because the requested information is accessible by other means (under Section 21 of the FOIA). You do not need authorisation from the Information Team to do this.

3.3 You may apply an exemption if you are permitted to do so under an inter-service agreement (ISA), if the circumstances specified in the ISA apply.

3.4 You must seek authorisation from a member of the Information Team whenever you might refuse any requested information which is held. But you need not do so under the circumstances in Paragraphs 3.2 and 3.3.

Rules for Responsible Officers

3.5 While you are a request's Responsible Officer you must ensure that a log entry for that request is kept in your service's FOI requests log. You must also update this entry whenever anything occurs which a rule in this Policy indicates must be 'recorded'[21].

Rules about helping to answer Centrally Administered Requests

3.6 Officers in the Information Team manage some requests themselves. But they may at times (under 4.4) ask you to submit information under certain parts of such a request. In such cases you must send them (not the applicant) all such information. You must accompany the information with advice and assistance under 2.16 (as if you were communicating directly with the applicant). Additionally, if you think any of the information may be exempt from disclosure you should tell the Information Team this.

(a) At the Information Team's request you should provide any relevant arguments favouring or disfavouring exempting the information from disclosure.

(b) You do not need to log any details about the management of Centrally Administered Requests.

Rules for Services and their Managers

3.7 This rule establishes a duty of every service. Service managers are responsible for determining, with reference to the Guidance, how to best meet this duty. Every service must ensure that each month a completed, electronic log entry for each request *answered* in the previous month by a Responsible Officer in that service is received by the Information Team. This is called the Monthly Log Transfer (MLT). If the service answered no requests in the previous month, they must ensure the Information Team is aware of this.

(a) In the MLT, services must also ensure that the Information Team is aware of the number of requests they received in the previous month.

3.8 Service managers may — if they consider it would be prudent to do so — produce an ISA in consultation with the Information Team. ISAs grant (some) officers in services additional powers in managing requests. Paragraph 4.19 addresses ISAs in more detail.

4 Duties Unique to Officers in the Information Team

4.1 The duties in this Section are required only of officers in the Information Team.

Duties in connection with requests they receive

4.2 The duties in this Subsection relate to requests sent to shared-inboxes administrated by the Information Team.

4.3 The Information Team must follow one of the two following procedures, after determining which is more appropriate in the circumstances of the case:

[21] This includes any opinion you form under any rule in this Policy referring to a 'reasoned opinion'. Under Paragraph 1.11 you must record these reasons.

(a) They may manage the request themselves (a Centrally Administered Request) if in their opinion it would be more appropriate to do so. It will typically be appropriate when:

(i) The request can be answered without specialist knowledge from another service

(ii) The request requires input from multiple services

(iii) The request includes a request for re-use[22]

(iv) It is likely that decisions about exemptions must be made and no officer in the service which holds the information could be the Appropriate Officer

(b) Otherwise they should transfer the request to the most appropriate service. If they do so, and the request will be answered from an email address other than the one to which it was submitted, the Information Team must acknowledge receipt, advising the applicant that their request will be referred.

4.4 When managing a Centrally Administered Request the Information Team may ask other services to submit elements of information as necessary.

4.5 They must remind services and officers as appropriate about their duties in connection with requests transferred to them by the Information Team; in particular when an applicant enquires or complains about such a request.

Duties when consulting on other requests

4.6 The Information Team must make decisions about refusals and the public interest where they arise, and consult with and advise other services as required.

4.7 The Information Team must ensure that a log entry is created for each Centrally Administered Request, and must update this entry whenever anything occurs which a rule in this Policy indicates must be 'recorded'[23].

4.8 The entries in the Information Team's Direct Requests Log must be entered into the Central FOI Requests Log, along with the log entries sent by other services in the MLT under 3.5.

4.9 Where they are called upon to do so under 2.19(a) or 2.19(b)(i), the Information Team must respectively: determine whether the SSDC Complaints Policies applies under 2.19, or determine the service manager responsible for a complaint under 2.19(b).

4.10 The Information Team must assess the validity of applications for Internal Review, refuse invalid requests, and appoint officers to conduct Internal Reviews; all in accordance with Section 5.

(a) They may also take responsibility for communicating with the applicant about their applications.

Requests for Re-use

4.11 Applicants can requests licenses to re-use[24] the information the Council discloses or publishes. Under the Re-use of Public Sector Information Regulations 2015 (RPSI) the Council must respond appropriately to these requests. The related duties of officers outside the Information Team are those set out in 2.11 and 2.17(d). All other duties in connection with re-use are duties of the Information Team.

4.12 Requests for re-use must be answered within 20 working days of receipt.

[22] See the 'Requests for Re-use' Subsection.
[23] Ibid.
[24] 'Re-use' means the use outside the Council of a document for a purpose other than its original purpose.

4.13 A request for re-use under the RPSI may be refused only because it does not specify the applicant's name and how they wish to re-use the document. But only where knowing any such missing piece of information would serve the public interest.

4.14 A non-commercial or charged license may only be used if the document being licensed was created by the Community Heritage Access Centre. But only if doing so would, in the reasoned opinion of the Information Team and compared with all lawful alternatives, be of the greatest benefit to the public interest.

4.15 Documents containing 3rd party intellectual property (IP) cannot be licensed for re-use under the RPSI until the 3rd party IP is removed. A charge may be made in advance to recover the estimated costs expected to be incurred in the activities necessary to remove this IP. Charges must be in accordance with the Charging Schedule in Schedule I (including the circumstances under which fees will be waived). But such a charge may not include costs arising from activities necessary to disclose or publish the document.

Executive Responsibilities

4.16 The Information Team are responsible for the revision of this Policy, including the Council's Statement of Public Task in Schedule I and the Charging Schedule in Schedule I. These revisions are subject to the approval of the Audit Committee and the District Executive Committee.

4.17 The Information Team are responsible for the revision of the Guidance, as necessary — only to the extent that any changes do not contradict any rule in this Policy. The Guidance may not introduce prohibitions or imperatives not present in this Policy.

(a) In particular, the Information Team must ensure that the Guidance reflects any duties delegated to the Legal Assistants under 4.20.

4.18 The Information Team are responsible for revising the applicant advice page on the Council's website. The information on this page must include the information in the Charging Schedule and must be compatible with the sources of rules in Paragraph 1.3.

4.19 The Information Team are responsible for working with other services to produce inter-service agreements (ISAs) (introduced in Paragraph 3.8).

(a) ISAs (and amendments to ISAs) must be approved by, and may only be cancelled by, the Fraud and Data Manager or the Assistant Director (Legal and Democratic Services).

(b) ISAs must specify—

- the activities permitted under the agreement;
- the circumstances under which each activity is permitted (including any necessary standard notices which must be sent to the applicant as a consequence of the activity); and
- who may perform each activity.

4.20 The Information Team may delegate to the Legal Assistants any of the responsibilities in—

- Paragraphs 4.3, 4.4 4.5, 4.7 and 4.8;
- Subparagraph 4.10(a);
- the Requests for Re-use Subsection; and
- Paragraphs 4.17, 4.18 and 4.19 — without prejudice to Subparagraph 4.19(a).

5 Internal Reviews

5.1 An Internal Review (IR) must be conducted when the following conditions are satisfied for a request or a request for re-use:

- The applicant requests an IR, or queries or challenges any decision reached in the management of their request.
- The request was answered (completed), according to the appropriate log entry, or a notice was sent to the applicant under Subparagraph 2.17(a) or (c).
- Six calendar months have not yet elapsed since a part of the requested information was disclosed.

(a) Internal Review requests which do not satisfy these criteria may nonetheless be accepted at the Information Team's discretion.

5.2 If a request for IR is rejected as invalid, the reasons for this decision must be recorded and explained to the complainant. Decisions not to exercise the discretion mentioned in Paragraph 5.1(a) need not be explained.

5.3 To the extent that doing so is practical, IRs will be conducted by an Information Team officer who was not involved in the management of the original request. Otherwise, the Information Team may appoint a competent officer outside the Team.

5.4 IRs must be completed within 20 working days of the receipt of the complaint.

5.5 If an IR is to be conducted the complainant must be notified of the review's deadline and the name of the officer conducting it.

5.6 Attempts will be made to conduct IRs informally, and all officers questioned in this process should be forthright and compliant with the conducting officer.

5.7 When the complainant is told about the decision reached in an IR, they must also be told about their right to appeal to the ICO.

Part II: Schedules

Schedule I: Charging Schedule (for publication)

Ordinarily the Council will waive any applicable fees for FOI requests or requests for re-use made by journalists or by citizens who appear to be making requests for non-commercial purposes, except when—

- the request is under the FOIA or the RPSI and the fee is over £10;
- the request is under the EIR and the fee is over £20;
- the information is publicly available (and the applicant is aware of this); or
- the total cost incurred by the Council over the last six months, answering requests made by the applicant, or the group of requesters with whom the applicant is working, is greater than £150.

We will not waive fees for requests made for the advancement of commercial interest, or by solicitors on behalf of clients.

VAT is chargeable on fees for information available by alternative means, except when it is only available by requesting it form a Public Authority.

All payable fees are estimates which we charge in advance. But when we process your request after the fee is paid, we will calculate the actual fee that would have applied in retrospect and explain how it was calculated.

If the retrospective fee is less than the one we charged you, we'll refund the balance.

Our standard material costs are:

Photocopies and Printing

A4 Black and White	10p per sheet
A3 Black and White	20p per sheet
A4 Colour	50p per sheet
A3 Colour	£1 per sheet
Photo quality paper prints	£1 per sheet

Electronic Media

CD-ROM	£1

Applicable postage costs will vary depending on circumstances, but will not exceed the costs incurred in posting. We will use 1st Class post, unless you request otherwise.

Staff time is chargeable for all requests under the EIR and RPSI; we charge staff time at £25 per hour, and we charge for fractions of hours (instead of rounding up).

Part III: Explanatory Note

Introduction

This Note does not constitute a part of the Policy; it is only intended to provide clarity.

Summary

Broadly, the Policy as drafted simply formalizes the current common practices in the Council, and introduces improvements when the common practices are unsatisfactory or unlawful. The following subsections outline all novel rules introduced by the Policy.

Charging

Schedule I and the Fees and Charges Subsection of Section 2 introduce a blanket charging Policy for FOI requests, which must be strictly adhered to throughout the Council; the Charging Schedule will be published on the FOI applicant advice page our website.

Relationship between legal and other services

The Policy defines a subset of the Legal Team called the Information Team, formalizing their duties in contrast to those of officers outside this Team. In addition to specifying the duties which have previously been vested in the Information Team and remain so vested, the Policy states that the Information Team must approve all refusals to disclose information, except when the refusal is due to the information being available elsewhere, or when the application of the exemption is permitted in an inter-service agreement (see below). Concordantly, officers outside the Information Team must seek their approval to apply an exemption.

The Information Team will also be responsible for 'centrally administering' certain requests (typically when information is required from multiple departments).

The Information Team will be relieved of the duty to log requests they transfer to other services. *This will now be solely a duty of the services themselves*; (most services are currently keeping such logs anyway).

The pre-existing procedure for keeping the Information Team apprised of the management of FOI requests by transferring log entries each month is formalized and expounded. Notably it will now be necessary to send log entries of requests *answered* in the previous month (instead of requests *received*).

Due to the complexity (in law) of the related considerations, responsibility for answering requests for re-use (see below) and licensing documents for re-use, will fall to the Information Team.

The Policy sets out that the Information Team may delegate certain of its day-to-day duties to the Legal Assistants without revision of the Policy, but the Guidance must be updated to reflect any such delegation.

Inter-service agreements

To permit the efficient conduct of Council business, it is proposed that inter-service agreements (ISAs) be agreed where appropriate, between the Information Team and any other service which frequently refuses information under FOI requests for specific reasons and wishes to do so without the Information Team's approval. Procedures for the negotiation of ISAs, their contents and revision, are provided.

Re-use of Public Sector Information and the Statement of Public Task

Broadly speaking, the Policy permits the preservation of the status quo (in which applicants do not ask for a licence to re-use, and we do not remind them to). Previously, requests for re-use of Council IP must be granted (unless the document is beset with 3rd party IP), even if it was published (including for the purpose of income generation) by one of our discretionary services.

After agreeing and publishing a Statement of Public Task which is subject to regular review, we can choose not to license for re-use any document which is outside our public task and is not a dataset under Section 11A of the FOIA, and we may more freely use a charged or non-commercial licence for such documents. This enables us to better preserve any intellectual property created by one of our discretionary or income generating services. Additionally, the Community Heritage Access Centre (CHAC) is a Museum for the purposes of the RPSI and we therefore have more discretion with respect to licensing its information for re-use.
The Policy also states that the public interest is the only consideration when choosing an appropriate license, sets out the applicable charges for granting a (non-charged) license, and incorporates requests for re-use into our Internal Review procedure.

Formalized Internal Review Procedure

Although there is no strict necessity to offer Internal Reviews of decisions (except under the EIR and RPSI), but doing so broadly precludes an appeal to the Information Commissioner until the review has been completed. It is therefore an opportunity to internally mitigate risk arising from a decision reached in error. Section 5 states the conditions under which Internal Reviews must be conducted and who may conduct them. The Policy also states that a request for Internal Review must also be treated as a complaint for the purposes of complaint statistics.

Treasury Management Performance to September 2016

Assistant Director: Donna Parham – Finance and Corporate Services
Service Manager: Catherine Hood – Finance Manager
Lead Officer: Karen Gubbins, Principal Accountant
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 2016.

Recommendations

2. The Audit Committee are asked to:
    - Note the Treasury Management Activity for the six-month period ended 30th September 2016.
    - Note the position of the individual prudential indicators for the six-month period ended 30th September 2016.
    - Carry out the Mid-year review of the Treasury Management Strategy and recommend it to Council. (Strategy attached with amendments highlighted)

The Investment Strategy for 2016/17

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. The transposition of European Union directives into UK legislation places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits.

8. Given the increasing risk and continued low returns from short-term unsecured bank investments, it is the Authority's aim to further diversify into more secure and/or higher

yielding asset classes. The Authority invested in covered bonds, and non-financial corporate bonds. The Authority is also invested in bond and property funds which provide diversification of investment risk. This represents a continuation of the strategy adopted in 2015/16.

Interest Rates 2016/17

9. Base rate began the financial year at 0.5% but this was reduced to 0.25% in August.

10. Following the UK's vote to leave the European Union, the economic outlook for the UK has immeasurably altered. It will to a large extent be dependent on the nature of the future relationship negotiated with the EU, particularly in relationship to trade. The negotiations crucially hinge on domestic politics which, at the end of the June quarter, were unsettled themselves.

11. The domestic outlook is uncertain, but likely to be substantially weaker in the short term than previously forecast. Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. The central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.40

12. In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent any immediate market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

Counterparty Update

13. Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

14. Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government.

15. Moody's affirmed the ratings of nine UK banks and building societies and revised the outlook to negative for those banks and building societies that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

16. There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the

timing of the next UK recession. In the coming weeks and months Arlingclose will therefore review all UK based institutions, and it is likely that, over time, will advise shortening durations on those institutions considered to be most affected.

Investment Portfolio

17. The table below shows the Council's overall investments as at 30th September 2016:

	Value of Investments at 01.04.16 £	Value of Investments at 30.09.16 £	Fixed/ Variable Rate
Investments advised by Arlingclose			
Money Market Fund (Variable Net Asset Value)	997,565	997,565	Variable
Property Fund	4,494,168	4,352,187	Variable
Total	**5,491,733**	**5,349,752**	
Internal Investments			
Certificates of Deposit	5,513,212	8,007,050	Fixed
Corporate Bonds	6,706,395	5,927,913	Fixed
Floating Rate Notes (FRNs)	10,025,398	11,009,471	Variable
Short Term Deposits (Banks)	9,000,000	15,500,000	Variable
Short Term Deposits (Other LAs)	11,000,000	10,000,000	Variable
Money Market Funds (Constant Net Asset Value) & Business Reserve Accounts	1,490,000	2,650,000	Variable
Total	**43,735,005**	**53,094,434**	
TOTAL INVESTMENTS	**49,226,738**	**58,444,186**	

Returns for 2016/17

18. The returns to 30th September 2016 are shown in the table below:

	Actual Income £'000	% Rate of Return
Investments advised by Arlingclose		
Payden Money Market Fund (VNAV)	4	
Property Fund (CCLA)	105	
Total	**109**	**4.37**
Internal Investments		
Certificates of Deposit (CD's)	26	
Corporate Bonds	45	
Floating Rate Notes (FRNs)	34	
Fixed Term Deposits	78	
Money Market Funds (CNAV) & Business Reserve Accounts	16	
Total	**199**	**0.72**
Other Interest		
Miscellaneous Loans	8	
Total	**8**	
TOTAL INCOME TO 30TH SEPTEMBER 2016	**316**	
PROFILED BUDGETED INCOME	**248**	

19. The table above shows investment income for the year to date compared to the profiled budget. The annual budget is set at £496,020. We currently estimate that the position at the end of the financial year will be an overall favourable variance in the order of £68,590. This is assuming SSDC receive a dividend of 3p per unit each quarter for its investment in the property fund.

20. We currently hold £4m nominal value in the CCLA fund, this converts to 1,558,527 units and £1m in Payden which converts to 98,990.299 shares.

21. 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

22. 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.

23. 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 2016 in comparison to all other clients of Arlingclose.

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

Borrowing

25. An actual overall borrowing requirement (CFR) of £9.7 million was identified at the beginning of 2016/17. As interest rates on borrowing exceed those on investments the Council has used its capital receipts to fund capital expenditure. As at 30th September 2016 the Council had no external borrowing.

Breakdown of investments as at 30th September 2016

Date Lent	Counterparty	Principal Amount	Rate	Maturity Date
9 Mar 16	United Overseas Bank Ltd	2,000,000	0.82	8 Mar 17
21 Mar 16	Bank of Scotland	1,000,000	1.05	20 Mar 17
17 Feb 16	Rabobank International	1,000,000	0.75	17 Feb 17
30 Aug 16	Bank of Scotland	1,000,000	0.65	28 Feb 17
19 Sep 16	Nationwide Building Society	1,000,000	0.36	17 Feb 17
29 Jun 16	Eastleigh Borough Council	2,000,000	0.52	20-Feb-17
15 Oct 15	Lancashire County Council	1,000,000	0.60	6 Oct 16
15 Dec 15	North Tyneside Council	2,000,000	0.65	13 Dec 16
31 Mar 16	Greater London Authority	2,000,000	0.60	30 Mar 17
7 Sep 16	Telford & Wrekin Council	1,000,000	0.25	6 Jan 17
9 May 16	Bank of Scotland	1,000,000	0.93	24 Mar 17
16 May 16	Nationwide Building Society	1,000,000	0.71	16 Nov 16
2 Jun 16	North Wales Fire Authority	2,000,000	0.56	20 Mar 17
10 Jun 16	DBS Bank Ltd	2,000,000	0.68	6 Mar 17
28 Jul 16	Commonwealth Bank of Australia	2,000,000	0.52	28 Feb 17
1 Aug 16	Leeds Building Society	1,500,000	0.40	9 Nov 16
8 Aug 16	IPA SCB TD Incoming (Santander)	1,000,000	0.45	8 Feb 17
13 Sep 16	Nationwide Building Society	1,000,000	0.38	24 Feb 17
	Corporate Bonds/Eurobonds			
17 Jan 14	Places for People Capital Markets	568,000	2.67	27 Dec 16
17 Jan 14	Places for People Capital Markets	432,000	2.67	27 Dec 16
4 Aug 14	Leeds Building Society (Covered)	500,000	2.13	17 Dec 18
22 Oct 14	Yorkshire Building Society (Covered)	1,500,000	1.56	12 Apr 18
4 Feb 16	Daimler AG	331,000	1.15	2 Dec 16
31 Mar 16	European Investment Bank	1,000,000	0.65	7 Dec 16
18 Aug 16	Svenska Handelsbanken	1,000,000	0.60	29 Aug 17
22 Sep 16	Daimler AG	399,000	0.46	2 Dec 16
	Certificates of Deposit (CDs)			
29 Jan 16	Toronto Dominion	1,000,000	0.90	27 Jan 17
19 Feb 16	Nordea AB	500,000	0.69	21 Nov 16
3 May 16	Bank of Montreal	500,000	0.83	2 May 17
4 May 16	Toronto Dominion	1,000,000	0.91	4 May 17
11 May 16	Nordea AB	1,000,000	0.63	11 Nov 16
16 Jun 16	Rabobank	1,000,000	0.65	16 Mar 17
23 Jun 16	Svenska Handelsbanken	500,000	0.64	23 Dec 16
5 Jul 16	Svenska Handelsbanken	500,000	0.47	5 Oct 16
22 Jul 16	Rabobank	1,000,000	0.47	3 Feb 17
16 Aug 16	Toronto Dominion	1,000,000	0.55	16 May 17
	Floating Rate Notes (FRNs)			
22 Oct 14	Abbey National Treasury Services *Covered*	1,000,000	0.72	5 Apr 17
21 Nov 14	Barclays Bank Plc *Covered*	1,000,000	0.68	15 Sep 17
27 Mar 15	Lloyds Bank Plc *Covered*	2,000,000	0.65	16 Jan 17
29 Apr 15	Toronto Dominion *Covered*	1,000,000	0.66	20 Nov 17
26 Jun 15	Nationwide Building Society *Covered*	1,000,000	0.68	17 Jul 17
7 Mar 16	Commonwealth Bank of Australia *Covered*	1,000,000	0.87	24 Jan 18
16 May 16	Bank of Nova Scotia	1,000,000	0.82	2 Nov 17
5 Sep 16	National Australia Bank Ltd	1,000,000	0.32	14 Nov 16
23 Sep 16	Barclays Bank Plc *Covered*	2,000,000	0.47	15 Sep 17

	Pooled Finds & Money Market Funds			
	Payden Fund VNAV	1,000,000	0.82	
	CCLA Property Fund	4,000,000	5.26	
	Blackrock	850,000	0.46	
	Federated	500,000	0.48	
	Invesco Aim	500,000	0.47	
	Ignis	800,000	0.44	
	TOTAL	**57,880,000**		

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

<u>Prudential Indicators – Quarter 2 monitoring</u>

Background:

26. In February 2016, Full Council approved the indicators for 2016/17, 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:

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

	2016/17 Original Estimate £'000	Expected Outturn £'000	2016/17 Variance £'000	Reason for Variance
Approved capital schemes	7,382	7,343	(39)	The variance against the original estimate is due to the reduction in loan to the SWP of £203k, additional spend added to the Capital programme for Transformation £329k in March 2016 and re-profiling of spend within the rest of the programme.
Reserves	2,298	126	(2,172)	This has reduced in the current year due to re-profiling of spend to future years.
Total Expenditure	**9,680**	**7,469**	**(2,211)**	

28. The above table shows that the overall estimate for capital expenditure in the current year has reduced.

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

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

Portfolio	2016/17 Original Estimate £'000	Expected Outturn £'000	2016/17 Variance £'000	Reason for Variance
Financing Costs*	(489)	(471)	18	The reduction in income is due to the cut in base rate in August 16 and the effect on our investments

Net Revenue Stream	16,904	17,559	655	The original estimate was picked up from an early report of the MTFS which was subsequently changed. The actual budget approved at Full Council was £17,291. The increase is due to carry forwards
%*	**(2.9)**	**(2.7)**		

*figures in brackets denote income through receipts and reserves

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

Prudential Indicator 3 - Capital Financing Requirement:

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

	2016/17 Original Estimate £'000	**Expected Outturn £'000**	**2016/17 Variance £'000**	**Reason for Variance**
Opening CFR	9,299	9,342	43	
Capital Expenditure	8,067	10,747	2,680	See explanation for Prudential Indicator 1 above
Capital Receipts*	(7,382)	(7,343)	39	
Grants/Contributions*	(685)	(3,404)	(2,719)	
Minimum Revenue Position (MRP)	(87)	(94)	(7)	Estimated figures were taken prior to being finalised at 2015/16 year end which has shown an amendment to the expected outturn
Closing CFR	**9,212**	**9,248**	**36**	

*Figures in brackets denote income through receipts or reserves.

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

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

	2016/17 Original Estimate £'000	2016/17 Qtr 2 Actual £'000	2016/17 Variance £'000	Reason for Variance
Borrowing	0	0	0	
Finance Leases	99	136	37	Additional finance leases taken out on vehicles
Total Debt	**99**	**136**	**37**	

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

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

34. 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.

	2016/17 % Limit	2016/17 Qtr 2 Actual %	2016/17 Variance %	Reason for Variance
Fixed	80	3.46	(76.54)	Within limit
Variable	100	96.54	(3.46)	Within limit

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

	2016/17 % Limit	2016/17 Qtr 2 Actual %	2016/17 Variance %	Reason for Variance
Fixed	100	0	100	SSDC currently has no borrowing
Variable	100	0	100	SSDC currently has no borrowing

36. 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:

37. 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	2016/17 Maximum Limit £'000	2016/17 Qtr 2 Actual (Principal amount) £'000	Reason for Variance
Between 1-2 years	25,000	4,500	Within limit
Between 2-3 years	20,000	500	Within limit
Between 3-4 years	10,000	0	Within limit
Between 4-5 years	10,000	0	Within limit
Over 5 years	5,000	0	Within limit

38. 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:

39. 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:

40. 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 31/03/2016	**£'000**
Borrowing	0
Liabilities arising from finance leases	230
Total	**230**

Prudential Indicator 9 - Authorised Limit for External Debt:

41. 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.

42. 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.

	2016/17 Estimate £'000	**2016/17 Qtr 2 Actual £'000**	**2016/17 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	136	(864)	Within limit
Total	**12,000**	**136**	**(11,864)**	

Prudential Indicator 10 – Operational Boundary for External Debt:

43. 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.

	2016/17 Estimate £'000	**2016/17 Qtr 2 Actual £'000**	**2016/17 Variance £'000**	**Reason for Variance**
Borrowing	9,200	0	(9,200)	SSDC currently has no external borrowing
Other Long-term Liabilities (Finance Leases)	800	136	(664)	Within limit
Total	**10,000**	**136**	**(9,864)**	

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

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

Maturity structure of fixed rate borrowing	2015/16 Actual %	2016/17 Qtr 2 Actual %	Lower Limit %	Upper Limit %
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100
40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed 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:

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

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Decrease in Band D Council Tax	0.12	0.22	0.16

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

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

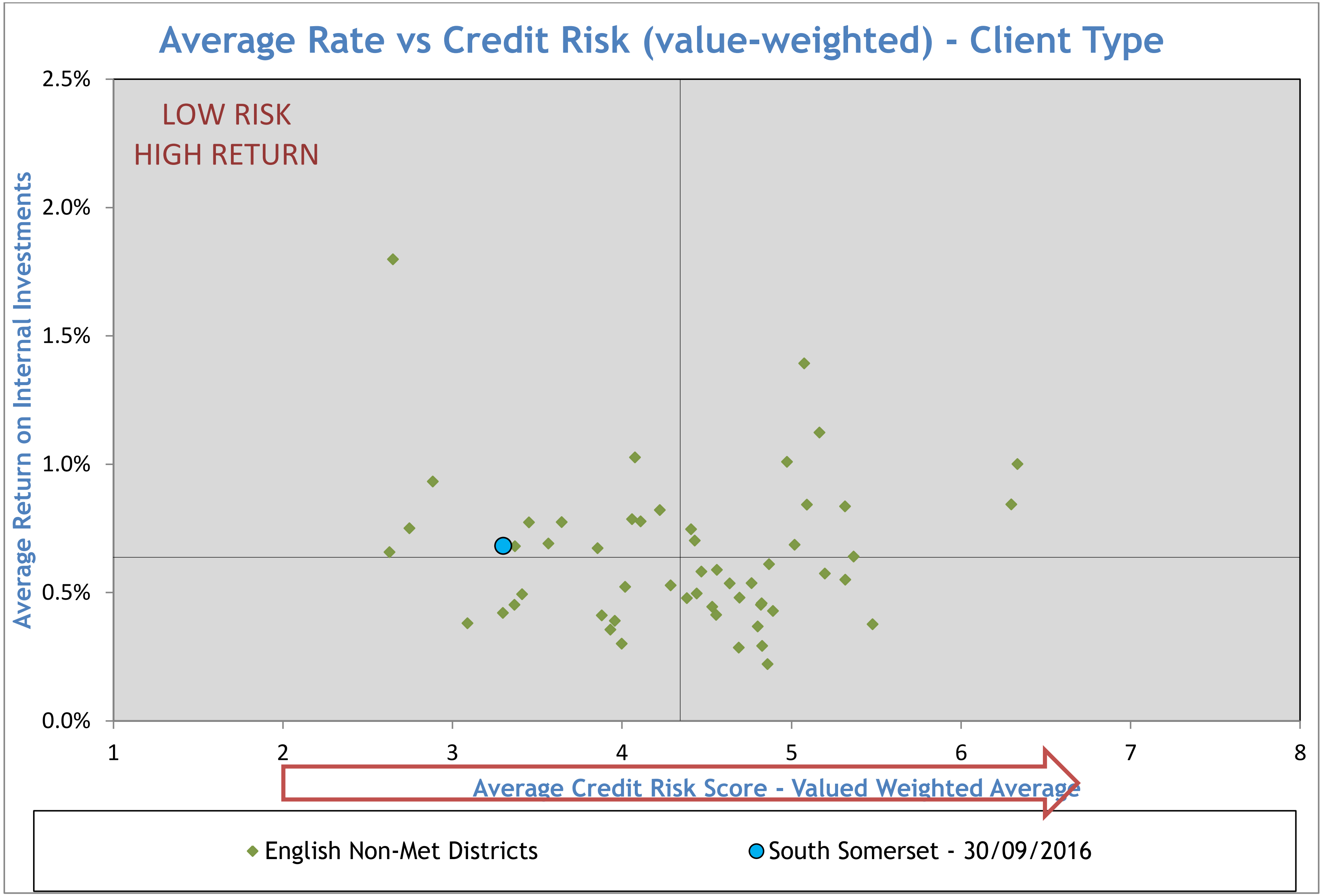
Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18th April 2002.

Conclusion

47. 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 2016/17, Quarter 2 2016/17 Capital Programme.

Appendix A



Average Rate vs Credit Risk (value-weighted) - Client Type
LOW RISK
HIGH RETURN
Average Return on Internal Investments
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
1
2
3
4
5
6
7
8
Average Credit Risk Score - Valued Weighted Average
English Non-Met Districts
South Somerset - 30/09/2016

Appendix 1

South Somerset District Council
Treasury Management Strategy Statement and Investment Strategy 2016/17

Contents

Appendices

1. Background

1.1 In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

1.3 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance

1.4 CIPFA has defined Treasury Management as:

"the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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

1.6 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

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

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

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

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

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

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

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

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

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

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

1.15 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

2. Credit Outlook and interest rate forecast

2.1 Credit outlook: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

2.2 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

2.3 ~~Interest rate forecast: The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside~~.

2.4 ~~A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.~~

2.5 The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

2.6 The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

2.7 In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

2.8 The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

2.9 Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017. A more detailed economic and interest rate forecast provided by Arlingclose is attached at *Appendix C*.

3. Balance Sheet and Treasury Position

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

	31/03/15 Actual £'000	31/03/16 Actual £'000	31/03/17 Estimate £'000	31/03/18 Estimate £'000	31/03/19 Estimate £'000
CFR	9,447	9,342	9,212	9,136	9,113
Usable Capital Receipts	(35,659)	(34,989)	(20,367)	(16,401)	(16,746)
Balances & Reserves	(16,795)	(21,330)	(17,311)	(18,379)	(18,615)
Net Balance Sheet Position **	**(43,007)**	**(46,977)**	**(28,466)**	**(25,644)**	**(26,248)**

*******excluding working capital.*

Note: The reduction in usable capital receipts each year is due to spend committed against the capital programme as at Dec 2015.

3.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at *Appendix A*. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.

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

3.4 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

3.5 The Prudential Code also promotes transparency in decision making by using information contained within the published Statements of Accounts of the local authority and by having definitions for prudential indicators that are consistent with the definitions used within the statements of Accounts. The Prudential indicators which are designed to support and record local decision making in a manner that is publicly accountable are attached at *Appendix B.*

3.6 The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget. The estimate for interest payments in 2016/17 is nil and for interest receipts is £538,020

4. Borrowing Requirement and Strategy

4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

4.2 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.3 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.4 Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Peninsula Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

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

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

5. Investment Strategy

5.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £46.6 million and £67.4 million, and similar levels are expected to be maintained in the forthcoming year.

5.2 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

5.3 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and higher yielding asset classes during 2016/17.

The Authority may invest its surplus funds with any of the counterparty types in the following table, subject to the cash limits (per counterparty) and time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3 m 5 years	£6 m 20 years	£6 m 50 years	£3 m 20 years	£3 m 20 years
AA+	£3 m 5 years	£6 m 10 years	£6 m 25 years	£3 m 10 years	£3 m 10 years
AA	£3 m 4 years	£6 m 5 years	£6 m 15 years	£3 m 5 years	£3 m 10 years
AA-	£3 m 3 years	£6 m 4 years	£6 m 10 years	£3 m 4 years	£3 m 10 years
A+	£3 m 2 years	£6 m 3 years	£3 m 5 years	£3 m 3 years	£3 m 5 years
A	£3 m 13 months	£6 m 2 years	£3 m 5 years	£3m 2 years	£3 m 5 years
A-	£3 m 6 months	£6 m 13 months	£3 m 5 years	£3 m 13 months	£3 m 5 years
BBB+	£1.5 m 100 days	£3 m 6 months	£3 m 2 years	n/a	£1.5 m 2 years
BBB	n/a	£3 m 100 days	n/a	n/a	n/a
None	n/a	n/a	£6 m 25 years*	n/a	£3 m 5 years
Pooled funds	£6m (nominal value) per fund				

*includes unrated UK Local Authorities

5.4 **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.5 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank National Westminster Bank Plc.

5.6 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.7 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.8 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

5.9 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

5.10 **Pooled Funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods. The limit on pooled funds is on the nominal value not the valuation.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

5.11 **Risk Assessment and Credit Ratings:** The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- on the advice of Arlingclose, any existing investments that can be recalled or sold at no cost will be, following consultation with the chair of Audit Committee, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.12 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.13 **Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.14 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.15 **Specified Investments:** The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.16 **Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the following table:

Non-Specified Investment Limits

	Cash limit
Total long-term investments (over 364 days)	£30m

Total investments without credit ratings or rated below A- (does not include other UK Local Authorities)	£5m *
Total investments (except pooled funds) in foreign countries rated below AA+	£4m
Total non-specified investments	£39m

*This limit will be reviewed in the event a change in EU legislation results in MMFs no longer being credit rated.

5.17 Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £6 million on 31st March 2016. South Somerset District Council has allocated a weighting of 25% to this risk, meaning that no more than 25% of available reserves (£1.5 million) will be put at risk in the case of a single default. The maximum that will be lent to any one organisation (other than the UK Government) will be £6 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts *(e.g. King & Shaxson)*, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£6m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£6m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£12m per country
Registered Providers	£8m in total
Unsecured investments with Building Societies	£8m in total
Loans to unrated corporates	£4m in total
Money Market Funds	£20m in total

5.18 Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures set out within the prudential indicators (*appendix b*).

5.19 **Liquidity Management**: The Authority uses cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

6. <u>Policy on use of financial Derivatives</u>

6.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in

Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

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

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

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

7. Balanced Budget Requirement

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

8. 2016/17 MRP Statement

Background:

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

8.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

8.3 The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. Four options for prudent MRP provision are set out in the CLG Guidance. Details of each are set out below:

Option 1 – Regulatory Method:

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

Option 2 – CFR Method:

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

Option 3 – Asset Life Method:

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

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

or

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

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

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

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

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

Option 4 - Depreciation Method:

8.11 The deprecation method is similar to that under Option 3 but MRP is equal to the depreciation provision required in accordance with proper accounting practices to be charged to the Income and Expenditure account

MRP Policy for 2016/17:

8.12 It is proposed that for 2016/17 the Council adopts Option 3 – Asset Life Method. Option 3 enables the calculation of MRP to be aligned with the life of the asset. If it is ever proposed to vary the terms of this MRP Statement during the year, a revised statement will be made to Council at that time.

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

9. Monitoring and Reporting on Treasury Management

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

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

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

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

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

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

10. Other Items

Training

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

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

Treasury Management Advisors

The Council appointed Arlingclose as its Treasury Advisers in 2005. The provision of treasury advisory services was formally re-tendered in autumn 2014 and Arlingclose was reappointed. Among the various services received is **advice** on investment, debt and capital finance issues appropriate to the Council's individual circumstances and objectives.

The Council monitors the service through measuring:

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

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

Financial Implications

The budget for investment income in 2016/17 is £496,020, based on an average investment portfolio of £55.6 million at an interest rate of 0.89% ~~less any revenue effects from capital~~. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	31/03/15 Actual £'000	31/03/16 Actual £'000	31/03/17 Estimate £'000	31/3/18 Estimate £'000
External Borrowing:				
Long-term liabilities				
• *Finance Leases*	334	230	99	23
Total External Debt	334	230	99	23
Investments:				
• Short term Deposits	20,000	20,000	13,500	12,500
• Monies on call and Money Market Funds	3,720	1,490	178	361
• Long term Deposits	0	0	4,000	3,500
• Bonds/CDs	20,651	21,831	15,000	14,000
• Property Fund & Other pooled funds	4,000	5,000	5,000	5,000
Total Investments	**48,371**	**48,321**	**37,678**	**35,361**
(Net Borrowing Position)/ Net Investment position	**48,037**	**48,091**	**37,579**	**35,338**

APPENDIX B

PRUDENTIAL INDICATORS 2016/17 TO 2018/19

Background:

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Prudential Indicator 1 - Capital Expenditure:

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. The approved expenditure for 2015/16 and the estimates of capital expenditure to be incurred for 2016/17 and future years are:

	2015/16 Actual £'000	2016/17 Approved £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Approved capital schemes	2,084	7,382	516	(345)
Reserve schemes	0	2,298	0	0
Total Expenditure	**2,084**	**9,680**	**516**	**(345)**

The expenditure for 2018/19 is currently negative due to the repayment of loans. This will change as anticipated capital projects are approved. Additional capital expenditure will also occur if new capital receipts are received and used to finance projects currently on the reserve list, as per the capital strategy.

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

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

Estimates of the ratio of financing costs to net revenue stream for the 2016/17 and future years, and the approved figures for 2015/16 are:

Portfolio	2015/16 Actual £'000	2016/17 Approved £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Financing Costs*	(424)	(489)	(479)	(503)
Net Revenue Stream	17,782	16,904	16,157	16,024
%*	**(2.4)**	**(2.9)**	**(3.0)**	**(3.1)**

*Figures in brackets denote income through receipts or reserves.

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

Prudential Indicator 3 - Capital Financing Requirement:

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

	2015/16 Actual £'000	2016/17 Approved £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Opening CFR ~~(Actual 14/15)~~	9,447	9,343	9,256	9,136
Capital Expenditure	3,227	8,067	861	0
Capital Receipts*	(2,084)	(7,382)	(516)	345
Grants/Contributions*	(1,143)	(685)	(345)	(345)
MRP	(170)	(87)	(76)	(23)
Additional Leases taken out in year	66	0	0	0
Closing CFR	**9,343**	**9,256**	**9,180**	**9,157**

*Figures in brackets denote financing through receipts or reserves.

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

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

	2015/16 Actual £'000	2016/17 Approved £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	0	0	0	0
Finance leases	230	99	23	0
Total Debt	**230**	**99**	**23**	**0**

Total debt is expected to remain below the CFR during the forecast period

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

The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. Overall the authority is aiming to keep within the following exposure to fixed rates as and when market conditions improve.

	2015/16 % Limit	2016/17 % Limit	2017/18 % Limit	2018/19 % Limit
Fixed	80	80	80	80
Variable	100	100	100	100

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

	2015/16 % Limit	2016/17 % Limit	2017/18 % Limit	2018/19 % Limit
Fixed	100	100	100	100
Variable	100	100	100	100

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

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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

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

Upper Limit for total principal sums invested over 364 days	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Between 1-2 years	25,000	25,000	25,000	25,000
Between 2-3 years	20,000	20,000	20,000	20,000
Between 3-4 years	10,000	10,000	10,000	10,000
Between 4-5 years	10,000	10,000	10,000	10,000
Over 5 years	5,000	5,000	5,000	5,000

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

Prudential Indicator 7 – Credit Risk:

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

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

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

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

The only indicators with prescriptive values remain to be credit ratings. The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average long-term credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

The Council targets a portfolio average long-term credit rating of 'A' or higher. (This target rating is one notch above the Council's minimum rating criteria of A-.)

Other indicators of creditworthiness are considered in relative rather than absolute terms.

Prudential Indicator 8 - Actual External Debt:

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

Actual External Debt as at 31/03/2016	**£'000**
Borrowing	0
Other Long-term Liabilities	230
Total	**230**

Prudential Indicator 9 - Authorised Limit for External Debt:

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

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

	2015/16 Estimate £'000	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**
Borrowing	11,000	11,000	11,000	11,000
Other Long-term Liabilities	1,000	1,000	1,000	1,000
Total	**12,000**	**12,000**	**12,000**	**12,000**

Prudential Indicator 10 – Operational Boundary for External Debt:

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

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

	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	9,200	9,200	9,200	9,200
Other Long-term Liabilities	800	800	800	800
Total	**10,000**	**10,000**	**10,000**	**10,000**

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

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

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

Maturity structure of fixed rate borrowing	2015/16 % Actual	2016/17 % Estimate	Lower Limit %	Upper Limit %
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100
40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed rated external borrowing at present the above upper and lower limits have been set to allow flexibility to borrow within any of the maturity bands.

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**
Increase in Band D Council Tax	0.12	0.22	0.16

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

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

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

Arlingclose's Economic and Interest Rate Forecast

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.40
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.18
Arlingclose Central Case	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.30	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.34
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.60	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90	0.65
Downside risk	-0.10	-0.15	-0.15	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.24
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.30	0.30	0.30	0.30	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.39
Downside risk	-0.40	-0.45	-0.45	-0.45	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.54
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	0.83
Downside risk	-0.40	-0.45	-0.45	-0.45	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.54
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	-0.50	-0.55	-0.55	-0.55	-0.60	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.64
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.35	1.35	1.40	1.40	1.29
Downside risk	-0.50	-0.55	-0.55	-0.55	-0.60	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.64

Underlying assumptions:

- The economic trajectory for the UK has been immeasurably altered following the vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The short to medium-term outlook is somewhat more downbeat due to the uncertainty generated by the result and the forthcoming negotiations (notwithstanding the Olympic and summer feel-good effects). The rapid installation of a new Prime Minister and cabinet lessened the political uncertainty, and the government/Bank of England have been proactive in tackling the economic uncertainty.

- PMI data, and consumer and business confidence surveys presented a more positive picture for August following the shock-influenced data for July, in line with expectations for an initial overreaction. However, many indicators remain at lower levels that pre-Referendum.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

- UK CPI inflation (currently 0.6% year/year) will rise close to target over the coming year as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

- The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- There is a debatable benefit to further interest rate cuts (particularly with regard to financial stability). Negative Bank Rate is currently perceived by policymakers to be counterproductive, but there is a possibility of close-to-zero Bank Rate. QE will be used to limit the upward movement in bond yields.

- Following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than a few months ago. However, financial market volatility is likely at various points because the stimulus has only delayed the fallout from the build-up of public and private sector debt (particularly in developing economies, e.g. China).

APPENDIX D

Glossary of Terms

Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.

ECB	European Central Bank
Federal Reserve	The US central bank. (Often referred to as "the Fed")
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
Gilt	Is a fixed rate security issued as debt and repaid at a future date.
IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'
Maturity	The date when an investment or borrowing is repaid
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Pooled funds	See Collective Investment Schemes (above)
Prudential Code	Developed by CIPFA as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice
Prudential Indicators	Indicators determined by the local authority to define the its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
SI (Statutory Instrumeny)	Is the principal form in which delegated or secondary legislation is made in Great Britain.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United

	Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Supported Capital Expenditure	The financing element of Capital expenditure that is grant funded by Central Government
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Capital Expenditure	The financing of Capital expenditure is financed internally through the revenue budget
Yield	The measure of the return on an investment instrument

Audit Committee Forward Plan

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Purpose of the Report

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

Recommendation

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

Audit Committee Forward Plan

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

Items marked in italics are not yet confirmed.

Background Papers: *None*

Audit Committee – Forward Plan

Committee Date	Item	Responsible Officer
15 Dec '16	• Debt Write Offs Report	Donna Parham
Feb '17	• Treasury Management – third quarter monitoring report • Internal Audit – third quarter update	Karen Gubbins Moya Moore
TBC	• E:Procurement • Risk Management Update/Procurement Strategy Update • Register of staff interests – annual review	Gary Russ Gary Russ Ian Clarke