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South Somerset District Council

Notice of Meeting

Audit Committee

Making a difference where it counts

Thursday 25th January 2018

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 following members are requested to attend the meeting:

Chairman: Derek Yeomans
Vice-chairman: Tony Lock

Jason Baker	Anna Groskop	David Norris
Mike Best	Val Keitch	Colin Winder
Carol Goodall	Graham Middleton	

If you would like any further information on the items to be discussed, please contact the Case Services Officer (Support Services) on 01935 462596 or democracy@southsomerset.gov.uk

This Agenda was issued on Wednesday 17 January 2018.

Alex Parmley, *Chief Executive Officer*

This information is also available on our website www.southsomerset.gov.uk and via the mod.gov app

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 Section 151 Officer, 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 usually 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

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

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. 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

Audit Committee

Thursday 25 January 2018

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on Thursday 23rd November 2017.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), 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.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on Thursday 22nd February 2018 in the Main Committee Room, Brympton Way, Yeovil.

Items for Discussion

6. Appointment of External Auditor (Page 5)

7. Certification of Claims Report (Pages 6 - 12)

8. Treasury Management Strategy Statement and Investment Strategy 2018/19 (Pages 13 - 34)

9. Audit Committee Forward Plan (Pages 35 - 37)

Appointment of External Auditor

CEO:	*Alex Parmley, Chief Executive*
Service Manager	*Paul Fitzgerald, S151 Officer*
Lead Officer:	*Karen Gubbins, Finance Specialist*
Contact Details:	*Karen.gubbins@southsomerset.gov.uk or (01935) 462456*

Purpose of the Report

1. This report outlines the outcome of the procurement process carried out by the Public Sector Audit Appointment (PSAA).

Recommendation

2. That Audit Committee note the appointment of Grant Thornton (UK) LLP as the Council's eternal auditor for five years from 2018/19, commencing 1 April 2018, and the projected fees payable.

Background

3. The 2014 Local Audit and Accountability Act abolished the Audit Commission and allowed local authorities to appoint their own auditors. In February 2017 Full Council approved that SSDC opt into the Public Sector Audit Appointments (PSAA) procurement process for them to appoint an external auditor by December 2017 on our behalf.

4. As a result of the procurement to let audit contracts from 2018/19, the PSAA have appointed Grant Thornton (UK) LLP to audit the accounts of South Somerset District Council for five years from 2018/19 with the appointment starting on 1 April 2018.

5. The PSAA is also responsible for setting the scale of fees for the audit of the accounts for those authorities that have opted into the appointing person scheme. This has resulted in a reduction of fees by 23 percent in 2018/19 compared to the fees applicable for 2017/18. They are hoping to maintain the reduction if 23 percent in scale fees for the first three years of the appointing period based on current assumptions about inflation and the amount of work the auditors are required to undertake, but will confirm this position when they review and update their assumption and estimates each year and will then carry out consultation on the scale fees for the following year.

6. The PSAA also makes arrangements for appointed auditors to certify the annual housing benefit subsidy claims from local authorities to the Department for Work and Pensions. In certifying these claims, auditors act as agents of PSAA and are required to comply with a specified approach. These certification arrangements will end with completion of certification work on 2017/18 claims.

7. The Department for Work and Pensions is developing its own assurance arrangements from 2018/19 for the housing benefit subsidy claim on a tripartite agreement basis, and requires all local authorities to appoint a 'reporting accountant' by the 1st March 2018. Once SSDC has completed this procurement process a further report will update Audit committee with the outcome.

Financial Implications

8. There has been a reduction in the fee charged from £49,276 in 2017/18 to £37,943 for 2018/19 and hopefully the subsequent 2 years and this has been built into the MTFP.

Certification of Claims Report

Executive Portfolio Holder: *Councillor Peter Sieb*
Service Manager *Paul Fitzgerald, S151 Officer*
Lead Officer: *Karen Gubbins, Finance Specialist*
Contact Details: *Karen.gubbins@southsomerset.gov.uk or (01935) 462456*

Purpose of the report

1. This report introduces the annual report from our external auditors Grant Thornton on their findings from the signing off of the Housing Benefit Subsidy Claim for 2016/17.

Recommendations

2. The Audit Committee is asked to note the contents of the Certification of Claim Report for 2016/17.

Introduction

3. The Certification of Claims Report is included within the remit of the Audit Committee under its terms of reference as follows:

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

   "To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken"

Subsidy Claim

4. The external auditors certify the subsidy claim for the Housing Benefit Scheme. The report from Grant Thornton is attached at Appendix A. The total claim was £43,092,604 and because there were errors the claim has been qualified. However, as members can see the amendments required were very minor. We will continue to provide training and further testing on the areas highlighted in the report.

Financial Implications

5. The final outcome of the claim was an additional payment from the Department of Works and Pensions (DWP) of £19,573 – which is a very small percentage change to the overall claim total and not a significant concern for financial control and reporting.

6. The indicative scale fee set by PSAA for the Council for 2016/17 was £10,493. Work undertaken is subject to a fee variation due to extra work being carried out. This is currently under discussion with management, and subject to agreement with PSAA. We will report the outcome from this process in a future Audit Committee.

Background Papers

Housing Benefit Subsidy Claim

South Somerset District Council
Brympton Way
Yeovil
BA20 2HT

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

T +44 (0)117 305 7600

www.grant-thornton.co.uk

8 January 2018

Dear Paul

Certification work for South Somerset District Council for year ended 31 March 2017

We are required to certify the Housing Benefit subsidy claim submitted by South Somerset District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £43.1 million. Further details are set out in Appendix A.

Our approach requires that we review issues identified in the prior year and undertake further testing where appropriate, to determine the extent that they have continued into the 2016/17 period. Our testing in 2015/16 identified the following issues that required further testing in 2016/17:

- Tax credits incorrectly recorded for Non HRA claimants
- Pension Credit Savings Credits incorrectly recorded
- Claimant's self-employed earned income incorrectly calculated
- Non dependent's self-employed earned income incorrectly calculated
- Tax credits incorrectly recorded for rent allowance claimants
- Claimant's earnings had been incorrectly calculated
- Rent allowance overpayments had been misclassified for subsidy purposes

In addition, our testing of claims relating to 2016/17 identified the following issues:

- Claimant's earnings had been incorrectly calculated
- The wrong number of rooms have been used to calculate entitlement

As a result of the errors identified, the claim was qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £10,493. Work undertaken is subject to a fee variation due to extra work being carried out, which is under discussion with management, and subject to agreement with PSAA. We will report the outcome from this process in a future Audit Committee. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2016/17

Claim or return	Value	Amended?	Qualified?	Comments
Housing benefits subsidy claim	£43,092,604	No	Yes	See below

<u>**Findings from certification of housing benefits subsidy claim**</u>

Tax credits incorrectly recorded for Non HRA claimants
Our testing last year identified that working tax credits and child tax credits had been incorrectly applied, whereby the wrong amounts had been allocated to the wrong period. This led to incorrect calculation of entitlement and required further testing in 2016/17. As the population was under 100 cases we carried out 100% testing.

Further testing of 24 cases identified one error which led to an underpayment. As there is no entitlement to subsidy for underpayments no further work was undertaken. This error can lead to an overpayment, as well as an underpayment and therefore, we will be required to undertake further testing in 2017/18

Pension Credit Savings Credits incorrectly recorded
Our testing last year identified that Pension Credit Savings Credit had been incorrectly applied, whereby the wrong amounts had been allocated to the wrong period. This led to incorrect calculation of entitlement and required further testing in 2016/17.

Testing of a sample of 40 cases with Pension Credit Savings Credits identified one further error that led to an overpayment. The nature of the population and the variation in errors, meant that even significant additional work would not allow us to make amendments to the claim form. The extrapolated value of the error was £54 and the number of errors was in line with the prior year. This will require us to undertake further testing in 2017/18.

Claimant's self-employed earned income incorrectly calculated
Our testing last year identified that claimant's self-employed earned income had been incorrectly calculated. This led to incorrect calculation of entitlement and required further testing in 2016/17.

Further testing of 40 cases identified 15 fails. The 15 fails were as follows:

- One case was an overpayment of benefit
- Four cases had no impact on subsidy
- Three cases were underpayments in claims where an overpayment had previously been calculated. As a result the underpayment was netted from the overpayment meaning the overpayment had been overstated
- The remaining seven cases were underpayments and have no entitlement to subsidy and, therefore, no further impact on the claim.

The extrapolated value of the overpayment was £1,192 and the extrapolated value of the overstated overpayments was £2,311. The nature of the population and the variation in errors meant that even significant additional work would not allow us to make amendments to the claim form. This will require us to undertake further testing in 2017/18.

Non-dependent's self-employed earned income incorrectly calculated
Testing in the prior year identified that non-dependent's self employed earned income had been incorrectly calculated. This led to incorrect calculation of entitlement and required further testing in 2017/18.

The total population of cases with non-dependent self employed earned income was 20 and therefore 100% testing was undertaken. From this one fail was identified that led to an underpayment. As underpaid benefit does not attract subsidy no extrapolation was undertaken. The error identified could equally lead to an overpayment and therefore, we will be required to undertake further testing in 2017/18.

Tax credits incorrectly recorded for rent allowance claimants
Our testing last year identified that working tax credits and child tax credits had been incorrectly applied, whereby the wrong amounts had been allocated to the wrong period. This led to incorrect calculation of entitlement and required further testing in 2016/17.

We tested a sample of 40 cases with tax credits, as a result of errors identified in the prior year, and from this a further eight fails of which four were overpayments and four were underpayments. The nature of the population and the variation in the errors, meant that even significant additional work would not allow us to make amendments to the claim form. The extrapolated value of the errors was £4,763 and the number of errors is in line with the prior year. This will require us to undertake further testing in 2017/18.

Claimant's earnings incorrectly calculated
We identified one error in our initial sample where claimant's earnings had been incorrectly calculated leading to an overpayment of benefit. This required us to undertake further testing.

We tested a sample of 40 cases with earned income, as a result of errors identified in the prior year, and from this 17 further errors were identified of which two included both over and underpayments. The errors identified were as follows:

- eight overpayments
- four cases that, due to earnings included in the overpayment calculation being incorrect, the overpayment cell had been overstated
- five underpayments that do not affect subsidy

The extrapolated value of the overpayment was £30,734 and the extrapolated value of the overstatement was £2,983. The nature of the population and the variation in errors meant that even significant additional work would not allow us to make amendments to the claim form. This will require us to undertake further testing in 2017/18.

Misclassification of Rent Allowance overpayments
Our testing last year identified 11 cases where the overpayment had been incorrectly classified as eligible error, when they should have been classed as LA error, which required further testing in 2016/17.

We tested a sample of 40 cases from the eligible error population and from this a further five errors were noted. The nature of the population, and the variation in the errors, meant that even significant additional work would not allow us to make amendments to the claim form.

The extrapolated value of these errors was £27,938 and the number of errors identified has decreased from prior years. This will require us to undertake further testing in 2017/18.

Incorrect number of rooms used to calculate entitlement

Testing of a sample of cases identified one error where the Council incorrectly assessed a claim for an HMO property. The Council incorrectly used all the rooms in the property for the assessment, rather than the rooms being used by the claimant, as a result of failing to apply the system override. This error can only ever lead to an underpayment and, as there is no entitlement to subsidy for underpayments, no further work was required.

Appendix B: Fees for 2016/17 certification work

Claim or return	2014/15 fee (£)	2016/17 indicative fee (£)	2016/17 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£13,990	£10,493	£TBC	£TBC	Work undertaken is subject to a fee variation do extra work being carried out, that is being discussed with management, and is subject to approval by PSAA.
Total	£13,990	£10,493	TBC	TBC	

Agenda Item 8

Treasury Management Strategy Statement and Investment Strategy 2018/19

Executive Portfolio Holder: *Councillor Peter Sieb*
Service Manager *Paul Fitzgerald, S151 Officer*
Lead Officer: *Karen Gubbins, Finance Specialist*
Contact Details: *Karen.gubbins@southsomerset.gov.uk or (01935) 462456*

Purpose of the Report

1. This report has been prepared for Audit Committee which has been tasked with the scrutiny of treasury management and to recommend to full Council the Treasury Management Strategy Statement and Investment Strategy for 2018/19 and the Prudential Indicators and MRP statement.

Recommendation

(a) To recommend the Treasury Management Strategy Statement and Investment Strategy for 2018/19 to full Council (Appendix 1)

(b) To note the Capital prudential indicators and the annual MRP statement (This is to go to full council for approval. The figures within the report are provisional dependant on the report going to District Executive in Feb 2018 so it is anticipated that these will change) (Appendix 2)

Introduction

2. In April 2002 the Authority adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

3. 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.

4. 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.

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. CIPFA has just this month released an updated The Prudential Code for Capital Finance in Local Authorities (2017 Edition) (the "Prudential Code") and Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition) (the "Treasury Code"). This report reflects the requirements of the new Codes and supporting guidance.

Background

7. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "Treasury Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential

Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

8. CIPFA has defined Treasury Management as:

   "the management of the organisation's borrowing, investments and cash flows, its banking, its 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.

9. The 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. Specific treasury management risks are identified in the Council's approved Treasury Management Practices. The risks include:

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

10. 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 indicators that must be set and monitored each year.

11. The Treasury Management Strategy Statement is attached at Appendix 1 and is split into the following main areas:

   - External Context
   - Local Context
   - Borrowing Strategy
   - Investment Strategy
   - Non-Treasury Investments
   - Treasury Management Indicators
   - Other Items

12. The capital prudential indicators and MRP Statement for 2018/19 is attached at Appendix 2 and is split into the following main areas:

   - Capital prudential indicators
   - Annual Minimum Revenue Provision Statement 2018/19

13. These are included in draft at this stage, and will potentially be amended for the report to Executive to reflect final budget proposals for 2018/19.

Financial Implications

14. The budget for investment income in 2018/19 is £727,820, based on an average investment portfolio of £48 million at an interest rate of 1.52%. The budget for minimum revenue provision (MRP) i.e. debt repayment in 2018/19 is £186,200. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Background Papers: *CIPFA Treasury Management Code of Practice*
CIPFA Prudential Code
Treasury Management Practices

Appendix 1

Treasury Management Strategy Statement 2018/19

Introduction

In April 2002 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the Treasury Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This requirement is maintained in the 2017 Edition of the Code, published in January 2018.

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.

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.

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.

Revised strategy: In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance.

External Context

Economic background: The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook: High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

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 very low.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix 1A***.

Local Context

On 31 March 2017, the Authority held £53m of investments and had no external borrowing. This is set out in further detail at ***Appendix 1B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £'000	**31.3.18 Estimate £'000**	**31.3.19 Forecast £'000**	**31.3.20 Forecast £'000**	**31.3.21 Forecast £'000**
General Fund CFR	9,338	24,338	43,963	63,463	82,963
Less: External borrowing *	0	0	0	0	0
Internal (over) borrowing	**9,338**	**24,338**	**43,963**	**63,463**	**82,963**
Less: Usable reserves	-50,789	-50,789	-50,789	-50,789	-50,789
Less: Working capital	-11,108	-11,108	-11,108	-11,108	-11,108
Investments (or New borrowing)	**52,559**	**37,559**	**17,934**	**-1,566**	**-21,066**

* shows only loans to which the Authority is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority is currently "debt free" (no external borrowing) although it has an increasing CFR due to the capital programme, and will therefore be required to borrow a minimum of £21m over the forecast period. Maintaining strategic investments as part of the treasury strategy will mean the borrowing requirement is expected to exceed this sum, potentially up to a maximum £84m.

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. Table 1 shows that the Authority expects to comply with this recommendation during 2018/19.

Borrowing Strategy

The Authority doesn't currently hold any loans. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2018/19. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £84 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.

Strategy: 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 of long-term.

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/short term 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 modestly. 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 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2018/19, 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 to cover unplanned cash flow shortages.

Sources of borrowing: 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 Somerset County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: 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

The Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

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 £47 million and £70 million, this is likely to reduce over the forthcoming year based on capital expenditure plans.

Objectives: 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 of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2018/19. A large proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a continuation of the new strategy initially adopted in 2015/16.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved investment counterparties and limits

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
None	n/a	n/a	£6 m 25 years*	n/a	£3 m 5 years
Pooled funds	£10m (nominal value) per fund				

This table must be read in conjunction with the notes below
*includes unrated UK Local Authorities

Credit rating: Investment limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

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. See below for arrangements relating to operational bank accounts.

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.

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.

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. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

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 the likelihood of receiving government support if needed.

Pooled funds: Shares in diversified investment vehicles consisting of the 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.

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.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £200,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: 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,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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.

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.

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.

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 and securities 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.

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 table 3 below.

Table 3: Non-specified investment limits

	Cash limit
Total long-term investments	£50m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£4m
Total non-specified investments	£59m

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £3 million on 31st March 2018. The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, 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.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£20m 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

Liquidity management: The Authority maintains cash flow forecasts, updated on a daily basis, 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.

Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in loans to local businesses and landlords or as equity investments. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

The Authority's existing non-treasury investments are listed in Appendix B.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score 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. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit score	5.0

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£10m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2018/19	**2019/20**	**2020/21**
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

The indicator has been set at 100% to maximise opportunities 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.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	**Lower**
Under 12 months	100%	100%
12 months and within 24 months	100%	100%
24 months and within 5 years	100%	100%
5 years and within 10 years	100%	100%
10 years and above	100%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

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.

Principal sums invested for periods longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£50m	£30m	£20m

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

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

The 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.

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.

Investment training: The needs of the Authority's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is monitored by 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

Investment of money borrowed in advance of need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £84 million. The maximum period between borrowing and expenditure is expected to be three years, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

The budget for investment income in 2018/19 is £727,820, based on an average investment portfolio of £48 million at an interest rate of 1.52%. The budget for minimum revenue provision (MRP) for debt repayment in 2018/19 is £186,200. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

Appendix 1A – Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Appendix 1B – Existing Investment & Debt Portfolio Position

	31st Dec 2017 Actual Portfolio £'000	31st Dec 2017 Average Rate %
External borrowing:		
Public Works Loan Board	0	-
Local authorities	0	-
LOBO loans from banks	0	-
Other loans	0	-
Total external borrowing	**0**	**-**
Other long-term liabilities:		
Private Finance Initiative	0	-
Finance Leases	227	
Transferred Debt	0	-
Total other long-term liabilities	**227**	
Total gross external debt	227	
Treasury investments:		
Banks and building societies (unsecured)	17,000	0.55%
Covered bonds & repo (secured)	7,500	1.08%
Government (incl. local authorities)	14,000	0.65%
Corporate bonds and loans	1,000	0.50%
Money Market Funds	1,530	0.22%
Other pooled funds	6,000	4.45%
Total treasury investments	**47,030**	1.40%
Net debt	**46,803**	

Non-treasury investments:		
Investment property	13,918	
Shares in subsidiaries	0	-
Loans to subsidiaries	0	-
Loans to local companies	0	-
Total non-treasury investments	**13,918**	
Total investments	**60,721**	

Appendix 2

Prudential Indicators and MRP Statement 2018/19

Prudential Indicators 2018/19

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.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Capital Expenditure	27,039	31,204	23,707	18,753
Total Expenditure	**27,039**	**31,204**	**23,707**	**18,753**
Capital Receipts	7,459	8,325	2,884	(832)
Grants/Contributions	3,330	2,879	823	835
Borrowing	16,250	20,000	20,000	18,750
Total Financing	**27,039**	**31,204**	**23,707**	**18,753**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.3.18 Estimate £'000	31.3.19 Forecast £'000	31.3.20 Forecast £'000	31.3.21 Forecast £'000
Adjustment A	9,113	9,113	9,113	9,113
Leases	136	62	30	0
Unsupported Borrowing	16,250	36,250	56,250	75,000
Total CFR	**25,499**	**45,425**	**65,393**	**84,113**

The CFR is forecast to rise by £75m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.18 Revised £'000	31.03.19 Estimate £'000	31.03.20 Estimate £'000	31.03.21 Estimate £'000
Borrowing	16,250	36,250	56,250	75,000
Finance leases	136	62	30	0
Total Debt	**16,386**	**36,312**	**56,280**	**75,000**

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

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	26,000	46,000	66,000	84,000
Other long-term liabilities	800	800	800	800
Total Debt	**26,800**	**46,800**	**66,800**	**84,800**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2017/18 Limit £'000	2018/19 Limit £'000	2019/20 Limit £'000	2020/21 Limit £'000
Borrowing	84,000	84,000	84,000	84,000
Other long-term liabilities	1,000	1,000	1,000	1,000
Total Debt	**85,000**	**85,000**	**85,000**	**85,000**

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 by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate

Stream	%	%	%	%
General Fund	TBC	TBC	TBC	TBC

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 capital programme proposed

Incremental Impact of Capital Investment Decisions	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
General Fund - increase in annual band D Council Tax	0.36	0	0.19

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* in April 2002. The 2017 Edition of the Code was published in January 2018. The Council fully complies with the Code recommendations.

Annual Minimum Revenue Provision Statement 2018/19

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure 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.

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. The following statement only incorporates options recommended in the Guidance.

For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £9,113k.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset by either of the following methods:

- in equal instalments
  or
- as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.

MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over a period of up to 25 years.

For assets acquired by finance leases MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2017, the budget for MRP has been set as follows:

	31.03.2018 Estimated CFR £'000	**2018/19 Estimated MRP £'000**
Capital expenditure before 01.04.2008	9,113	0
Supported capital expenditure after 31.03.2008	0	0
Unsupported capital expenditure after 31.03.2008	16,250	186
Finance leases and Private Finance Initiative	136	74

Total	**25,499**	**260**

Audit Committee Forward Plan

Lead Officer: *Kelly Wheeler, Case Services Officer*
Contact Details: *Kely.wheeler@southsomerset.gov.uk or 01935 462038*

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
25 Jan 18	• Treasury Management Strategy Statement 2018/19 – **Needs to go on to Full Council** • External Audit – Certification of Housing benefit Subsidy Claim • Appointment of External Auditor	Paul Fitzgerald Paul Fitzgerald (GT) Paul Fitzgerald
22 Feb 18	• Internal Audit – third quarter update • Progress report on General Data Protection Regulations	Laura Wicks (SWAP) Lynda Creek
22 Mar 18	• Internal Audit Plan – approve 2018/19 plan • Internal Audit – Charter	Laura Wicks (SWAP) Laura Wicks (SWAP)
26 Apr 18	• Statement of Accounting Policies for 2017/18 Accounts • 2017/18 Annual Governance Statement • External Audit – Audit Plan • Review of Internal Audit	Karen Gubbins Paul Fitzgerald Paul Fitzgerald (GT) Paul Fitzgerald
24 May 18		
28 Jun 18	• Register of staff interests – annual review • Annual Treasury Management Activity Report 2017/18 – **Needs to go on to Full Council** • Health, Safety and Welfare (Annual Report) • Going Concern Assessment	Angela Watson Karen Gubbins Pam Harvey Paul Fitzgerald
19 Jul 18	• Approve Annual Statement of Accounts • Approve Summary of Accounts • External Audit - Annual Governance Report • External Audit – VFM Conclusion • Internal Audit Annual Opinion and the 2017/18 Quarter 4 update	Karen Gubbins Karen Gubbins Paul Fitzgerald (GT) Paul Fitzgerald (GT) Laura Wicks
23 Aug 18	• Internal Audit – First Quarter Update	Laura Wicks
27 Sep 18	• Treasury Management Practices	Karen Gubbins
25 Oct 18	• Mid-year review of Treasury Strategy – **Needs to go on to Full Council**	Karen Gubbins
22 Nov 18	• Treasury Management – half yearly monitoring • Internal Audit – second Quarter update • External Audit - Annual Audit Letter • Annual Fraud Programme	Karen Gubbins Laura Wicks (SWAP) Paul Fitzgerald (GT) Lynda Creek
20 Dec 18	• Provisional date if required	

24 Jan 19	• Treasury Management Strategy Statement 19/20 – **Needs to go on to Full Council**	Paul Fitzgerald
28 Feb 19	• Internal Audit – third quarter update	Laura Wicks (SWAP)
28 Mar 19	• Internal Audit Plan – approve 2019/20 plan • Internal Audit – Charter	Laura Wicks (SWAP) Laura Wicks (SWAP)