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South Somerset District Council

Notice of Meeting

South Somerset District Council

Making a difference where it counts

Thursday 15th November 2018

7.30 pm

Council Chamber
Council Offices
Brympton Way
Yeovil, BA20 2HT

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

All members of Council are requested to attend this meeting.

If you would like any further information on the items to be discussed, please contact the Democratic Services Specialist on 01935 462148 or democracy@southsomerset.gov.uk

This Agenda was issued on Wednesday 7 November 2018.

Alex Parmley, *Chief Executive Officer*

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

INVESTORS IN PEOPLE

South Somerset District Council Membership

Chairman: Tony Capozzoli
Vice-Chairman: Mike Best

Clare Paul	Kaysar Hussain	Jo Roundell Greene
Jason Baker	Val Keitch	Dean Ruddle
Cathy Bakewell	Andy Kendall	Sylvia Seal
Marcus Barrett	Jenny Kenton	Gina Seaton
Mike Beech	Mike Lewis	Peter Seib
Neil Bloomfield	Sarah Lindsay	Garry Shortland
Amanda Broom	Mike Lock	Angie Singleton
Dave Bulmer	Tony Lock	Alan Smith
Hayward Burt	Paul Maxwell	Sue Steele
John Clark	Sam McAllister	Rob Stickland
Nick Colbert	Graham Middleton	Gerard Tucker
Adam Dance	David Norris	Andrew Turpin
Gye Dibben	Graham Oakes	Linda Vijeh
Sarah Dyke	Sue Osborne	Martin Wale
John Field	Tiffany Osborne	William Wallace
Nigel Gage	Stephen Page	Nick Weeks
Carol Goodall	Ric Pallister	Colin Winder
Anna Groskop	Crispin Raikes	Derek Yeomans
Peter Gubbins	Wes Read	
Henry Hobhouse	David Recardo	

Information for the Public

The meetings of the full Council, comprising all 60 members of South Somerset District Council, are held at least 6 times a year. The full Council approves the Council's budget and the major policies which comprise the Council's policy framework. Other decisions which the full Council has to take include appointing the Leader of the Council, members of the District Executive, other Council Committees and approving the Council's Constitution (which details how the Council works including the scheme allocating decisions and Council functions to committees and officers).

Members of the Public are able to:-

- attend meetings of the Council and its committees such as Area Committees, District Executive, except where, for example, personal or confidential matters are being discussed;
- speak at Area Committees, District Executive and Council meetings;
- see reports and background papers, and any record of decisions made by the Council and Executive;
- find out, from the Executive Forward Plan, what major decisions are to be decided by the District Executive.

Meetings of the Council are scheduled to be held monthly at 7.30 p.m. on the third Thursday of the month in the Council Offices, Brympton Way although some dates are only reserve dates and may not be needed.

The agenda, minutes and the timetable for council meetings are published on the Council's website – www.southsomerset.gov.uk/councillors-and-democracy/meetings-and-decisions

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The Council's corporate aims which guide the work of the Council are set out below.

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

South Somerset District Council - Council Aims

South Somerset will be a confident, resilient and flexible organisation, protecting and improving core services, delivering public priorities and acting in the best long-term interests of the district. We will:

- Protect core services to the public by reducing costs and seeking income generation.
- Increase the focus on Jobs and Economic Development.
- Protect and enhance the quality of our environment.
- Enable housing to meet all needs.
- Improve health and reduce health inequalities.

South Somerset District Council
Thursday 15 November 2018

Agenda

1. **Apologies for Absence**

2. **Minutes**
To approve and sign the minutes of the previous meeting held on Thursday, 20th September 2018.

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.

   Members are reminded that they need to declare the fact that they are also a member of a County, Town or Parish Council as a Personal Interest. Where you are also a member of Somerset County Council and/or a Town or Parish Council within South Somerset you must declare a prejudicial interest in any business on the agenda where there is a financial benefit or gain or advantage to Somerset County Council and/or a Town or Parish Council which would be at the cost or to the financial disadvantage of South Somerset District Council.

4. **Public Question Time**

5. **Chairman's Announcements**

Items for Discussion

6. **Chairman's Engagements** (Pages 5 - 6)

7. **Treasury Management Strategy Statement and Investment Strategy 2018/19 - Mid-year review** (Pages 7 - 26)

8. **Report of Executive Decisions** (Pages 27 - 29)

9. **Audit Committee** (Pages 30 - 32)

10. **Scrutiny Committee** (Pages 33 - 35)

11. **Motions**
There were no Motions submitted by Members.

12. **Questions Under Procedure Rule 10**
There were no questions submitted under Procedure Rule 10.

13. **Date of Next Meeting** (Page 36)

Chairman's Engagements

3rd October

At the invitation of the Mayor of Yeovil, the Chairman attended a Civic Reception at Westlands Entertainment Venue.

4th October

At the invitation of Yeovil Town Council, the Chairman attended a Yeovil in Bloom celebration at Westlands Entertainment Centre.

11th October

The Chairman and the Leader of the Council attended the Somerset County Council Community Service Awards held at Taunton Rugby Club.

12th October

At the invitation of the Yeovil Amateur Operatic Society, the Chairman enjoyed a performance of 'Sweeny Todd' at the Octagon Theatre.

13th October

The Vice-Chairman and his wife attended the Annual Chard Carnival.

14th October

The Chairman attended the Somerset County Council Civic Service at Muchelney Parish Church.

14th October

At the invite of the Chapter of Wells Cathedral, the Vice-Chairman attended a Thanksgiving Service.

18th October

The Chairman attended the NHS AGM and 'Healthy NHS Somerset' open day, which was held in Frome.

25th October

At the invite of the Mayor of Ilminster, the Vice-Chairman attended an 'Antiques Call my Bluff' charity evening which was held at The Shrubbery Hotel, Ilminster.

26th October

The Chairman attended the Yeovil College University Centre's official Graduation Ceremony for the class of 2018, which was held at Westlands Entertainment venue.

28th October

At the invite of the Chairman of Sedgemoor District Council, the Chairman attended a Civic Service held at St Andrews Church, Cheddar.

30th October

At the invite of the Bridgwater Army Engagement Team, the Vice-Chairman attended a civic event.

Treasury Management Strategy Statement and Investment Strategy 2018/19 – Mid-year review

Director	*Netta Meadows, Strategy & Support Services*
Lead Officers:	*Paul Fitzgerald, S151 Officer*
	Paul Matravers, Specialist - Finance
Contact Details:	*Paul.fitzgerald@southsomerset.gov.uk or (01935) 462226*
	Paul.matravers@southsomerset.gov.uk or (01935) 462275

Purpose of the Report

1. This report has been prepared for Council to approve the mid-year Treasury Management Strategy Statement and Investment Strategy for 2018/19. The Audit Committee approved the revised strategy on 25 October 2018 for recommendation to Full Council.

Recommendation(s)

2. The Audit Committee recommends that Council approve the revised Treasury Management Strategy Statement and Investment Strategy for 2018/19.

Introduction

3. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services Code of Practice which requires the Council to approve an annual Treasury Management Strategy and report treasury performance mid-year and at the year end.

4. The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved at a meeting of the full Council on 22 February 2018. The Council 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 treasury management strategy.

5. Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. The MHCLG published its revised Investment Guidance which came into effect from April 2018.

6. The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full council covering capital expenditure and financing, treasury management and non-treasury investments. The Council will be producing its Capital Strategy for 2019/20 for approval by full Council in February.

Background

7. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

8. 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."

9. 'Investments' in the definition above covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations.

10. The Council has delegated 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 S151 Officer who will act in accordance with the organisation's policy statement and Treasury Management Practices (TMPs), and CIPFA's standard of Professional Practice on Treasury Management.

11. 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 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 and borrowing).
    - 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).

12. The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

13. When the strategy for 2018/19 was written it took into account the Council's current treasury position and drew upon the forecasts for interest rates provided by the Council's treasury advisers, leading to the proposed Prudential Indicators included. This has been amended with the most recent forecast provided by the Council's treasury advisers.

14. The Strategy is attached at Appendix 1 and is split into the following main areas:

    - Background
    - Credit Outlook and Interest Rate Forecast
    - Balance Sheet and Treasury Position
    - Borrowing Requirement and Strategy
    - Investment Strategy
    - Policy on use of financial Derivatives
    - Balanced Budget Requirement
    - 2018/19 MRP Statement
    - Monitoring and Reporting on Treasury Management
    - Other Items

Regulatory Updates

15. As referred above, in 2017 CIPFA consulted on proposed changes, and in December 2017 published updated editions of the:

- The Prudential Code for Capital Finance in Local Authorities (Prudential Code)
- Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (Treasury Management Code)

16. A summary of the major changes are provided below.

    a. **Capital Strategy** – The Prudential Code includes a requirement to produce a Capital Strategy which provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, and a long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability.

    b. **Prudence and Prudential Indicators** – The requirement on prioritising security and liquidity has been revised: "Authorities should consider a balance between security, liquidity and yield which reflects their own risk appetite but which prioritises security and liquidity over yield." The range of Prudential Indicators has been updated including deletions and a recommendation of potential indicators to include in the Capital Strategy.

    c. **Treasury Management Practices (TMPs)** – TMPs set out the operational procedures and 'rules' followed by its treasury management staff in managing day to day decisions in respect of the council's banking, investment and borrowing arrangements. The updated Codes bring recommended wording change for TMPs.

    d. **Management Practices for Non-Treasury Investments** – New requirement for management practices (similar to TMPs) to be developed and implemented for non-treasury investments (such as commercial investment properties) – providing clearly documented procedures for our approach to commercial investment such as the scope of due diligence to be completed. In practice this is covered in our existing governance arrangements but these will be reviewed to provide further assurance.

    e. **Definition of investments** –, the definition of 'investments' has been widened to include not only financial assets (e.g. cash placed in Money Market Funds) but also non-financial assets held primarily for financial returns such as investment property.

17. A report on the code changes was presented to Audit committee in June 2018 along with an action plan detailing the required actions, key dates and officer responsibility.

18. MHCLG also issued updated Statutory Guidance on Minimum Revenue Provision in February 2018, as previously reported to Audit Committee. This included a number of changes and clarifications regarding the approach to and calculations of a prudent provision for repayment of capital borrowing. This included specific guidance in respect of investment properties and we have added specific content into an updated MRP Policy Statement that is recommended for approval. This is included in Appendix 1C to this report.

Financial Implications

19. There are no additional financial implications in reviewing the attached treasury management strategy.

Background Papers

Treasury Management Strategy 2018/19 (Full Council February 2018)
Practical Implications of the Revised Prudential Code, Treasury Management Code, Local Authority Investments and Minimum Revenue Provision (Audit Committee June 2018)

Treasury Management Strategy Statement 2018/19 (Updated)

Introduction

The Chartered Institute of Public Finance and Accountancy (CIPFA) *Treasury Management in the Public Services: Code of Practice* (the Treasury Code) requires the Council to approve a treasury management strategy before the start of each financial year, and review it mid-year.

In addition, the Ministry of Housing, Communities and Local Government (MHCLG) revised guidance on Local Authority Investments and Minimum Revenue Provision (MRP) in February 2018. The guidance requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the MHCLG Guidance.

The Council 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 Council's treasury management strategy.

Revised strategy: In accordance with the MHCLG Guidance, the Council 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 Council's capital programme or in the level of its investment balance.

External Context

Economic background: The major external influence on the Council's treasury management strategy for 2018/19 continues to be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament.

Very little progress was made in finalising negotiations with the EU (these have now been pushed into autumn 2018, with a UK-EU special summit on the Brexit deal expected in November). Nor was much progress made on future trading arrangements with non-EU countries, extending the period of uncertainty.

UK Consumer Price Inflation (CPI) index fell to 2.4% in June, a 12-month low. CPI ticked back up marginally to 2.5% in July. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

It is the view of the Council's treasury advisor that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

Financial markets: Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the yield on the 5-year benchmark gilt only rose slightly from 1.13% to 1.14%, the 10-year from 1.37% to 1.39% and the 20-year gilt from 1.74% to 1.85%. Money markets rates remained low: 1-month, 3-month and 12-month LIBID rates averaged 0.45%, 0.60% and 0.87% respectively over the period.

Credit background: 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.

The big four UK banks are progressing well with ringfencing. Barclays Bank plc and HSBC Bank plc have created new banks (Barclays Bank UK and HSBC UK Bank) and transferred ringfenced (retail) business lines into the new companies. Lloyds Bank plc has created Lloyds Bank Corporate Markets as a new non-ringfenced (investment) bank. RBS has renamed existing group entities and transferred accounts to leave NatWest Markets as the non-ringfenced bank and NatWest Bank, Royal Bank of Scotland and Ulster Bank as the ringfenced banks.

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 Council; returns from cash deposits however remain very low.

Interest rate forecast: The Council's treasury adviser Arlingclose's central case is for UK for Bank Rate is to rise twice in 2019 (see below).

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon. The market's reaction to the rate hike suggests that investors expect both the relatively weak economic environment and political developments (Brexit negotiations and US trade relations) to limit the speed of rises in Bank Rate.

The MPC has a definite bias towards tighter monetary policy. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that:

1) ultra-low interest rates result in other economic problems, and that
2) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise.

Local Context

On 31 March 2018, the Council held £52m of investments and had no external borrowing. During the first half of 2018/19, the balances available for investment have increased by £3m.

An additional £2m has been invested in pooled funds; this is in line with the financial strategy of increasing level of strategic investments and further diversifying into more secure and/or higher yielding asset classes.

This is set out in further detail at ***Appendix 1A***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.18 Actual £'000	**31.3.19 Estimate £'000**	**31.3.20 Forecast £'000**	**31.3.21 Forecast £'000**
CFR	17,439	45,425	65,393	84,113
Usable Capital Receipts	(25,268)	(14,064)	(10,357)	(10,354)
Balances & Reserves	(23,575)	(23,575)	(23,575)	(23,575)
Borrowing	0	(20,000)	(50,000)	(75,000)
Net Balance Sheet Position **	**(31,404)**	**(12,214)**	**(18,539)**	**(24,816)**

***excluding working capital.*

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 Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council 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 £75m 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 £124m. It should be noted that the Council has also agreed to progress with significant regeneration programmes. The financing approach agreed in the governance for these programmes is quite elastic meaning the CFR could grow further in line with supported business cases.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2018/19.

Borrowing Strategy

The Council didn't hold any external loan finance at 31 March 2018, and this remains the case as at 30 September 2018. The balance sheet forecast in table 1 shows that the Council expects to borrow in 2018/19. The Council may decide to borrow to pre-fund future years' requirements as well, providing this does not exceed the authorised limit for borrowing of £124 million. Recent increases in PWLB borrowing rates indicates it may be appropriate to externalise some or all of the current CFR in the near future in order to secure favourable long term borrowing rates. This is currently being reviewed by the S151 Officer.

Objectives: The Council'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 Council'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 Council'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 Council 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 Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council 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 Council 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 Council 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 Council 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, which 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 Council 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 Council 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 Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the last financial year, the Council's investment balance ranged between £35 million and £75 million. As capital expenditure plans are implemented the investment balances are likely to fall unless these are supported through external funding or borrowing.

Objectives: Both the CIPFA Code and the CLG Guidance require the Council 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 Council'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 Council 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.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council will further diversify into more secure and/or higher yielding asset classes during 2018/19. A proportion of the Council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. The financial strategy seeks to increase and maintain higher levels of investment income and we are therefore actively increasing funds held in strategic treasury investments.

MHCLG released a consultation on statutory overrides relating to the introduction of IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognises that the requirement in IFRS 9 for certain investments to be accounted for at fair value through profit and loss (income and expenditure statement for local authorities) may introduce "more income statement volatility" which may impact on budget calculations. The consultation proposes a time-limited statutory override and has sought views whether it should be applied only to pooled property funds. The Council has responded to the consultation which closed on 30th September, strongly encouraging Government to implement the statutory override without a time limit.

Approved counterparties: The Council 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. There are no proposals to change the limits through the mid-year review of the strategy.

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 Council 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 Council's investment objectives will be monitored regularly.

Operational bank accounts: The Council 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 Council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council'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 Council 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 Council 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 Council'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 Council 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 Council 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 Council's revenue general reserves available to cover investment losses were £4.3 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 Council 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 Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

Non Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The value of the Council's existing non-treasury investments are listed in **Appendix 1A**.

The Council's commercial strategy seeks to build its investment property portfolio in order to increase income available to maintain services, in response to reductions in general grant funding from Government. Most if not all of the proposed investment will require financing to be raised through borrowing. This will require the Council to disregard the statutory guidance in respect of 'borrowing in advance of need', and report the rationale for this. The purpose was clearly set out in the Council's approved Commercial Strategy prior to the release of the latest Guidance, and this will be clarified further within the Capital Strategy that is brought to Members in February 2019.

Treasury Management Indicators

The Council measures and manages its exposure to treasury management risks using the following indicators.

Security: The Council 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 Council 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 Council'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 Council'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 365 days: The purpose of this indicator is to control the Council'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 Council is obliged by CIPFA or MHCLG 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 Council 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 Council 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 Council'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 Council 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 Council 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 Council 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 Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £124 million. The maximum period between borrowing and expenditure is expected to be three years, although the Council is not required to link particular loans with particular items of expenditure.

Minimum revenue provision (MRP): MHCLG published updated Minimum Revenue Provision guidance in February 2018. This includes clarification regarding the application of the guidance in respect of investment properties. A 2018/19 updated SSDC MRP Policy Statement is included in **Appendix 1C**, to include specific provisions for investment properties.

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.

The interest received as at 30 September 2018 and the projected year-end position is included in **Appendix 1B**.

Other Options Considered

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 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 – Existing Investment & Debt Portfolio Position

EXISTING PORTFOLIO PROJECTED FORWARD

	31/03/17 Actual £'000	31/03/18 Actual £'000	30/09/18 Actual £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000
External Debt:					
Total External Borrowing	0	0	0	30,000	50,000
Long-term liabilities					
• *Finance Leases**	227	138	138*	138*	138*
Total External Debt	**227**	**138**	**138**	**30,138**	**50,138**
Investments:					
• Short term Deposits	20,000	8,000	6,000	2,000	2,000
• Monies on call and Money Market Funds	1,000	2,230	260	1,000	1,000
• Long term Deposits	3,000	3,000	3,000	3,000	2,000
• Bonds/CDs	22,175	8,814	14,200	4,000	3,000
• Property Fund & Other pooled funds	6,000	13,000	15,000	25,000	25,000
Total treasury investments	**42,175**	**35,044**	**38,460**	**35,000**	**33,000**
Non-treasury investments:					
• Investment property	6,004	17,633	18,475	47,000	67,000
Total non-treasury investments	**6,004**	**17,633**	**18,475**	**47,000**	**67,000**
Total Investments	**48,179**	**52,677**	**56,935**	**82,000**	**100,000**
(Net Borrowing Position)/ Net Investment position	**47,952**	**52,539**	**56,797**	**51,862**	**49,862**

*Proposed changes to IFRS 16 (Leases) come into effect from 1 April 2019. The revised IFRS 16 retains the concept of operating and finance leases for lessors, but adopts a new accounting model for lessees that will see most leases come onto the balance sheet.

This will have a significant impact upon local authorities' accounting and capital finance frameworks, work is ongoing to identify and implement the changes required. The figures included in the table do not take account the potential impact of the revised IFRS 16.

Appendix 1B – Half Year Interest position & Year end Projection

INTEREST AS AT 30 SEPTEMBER 2018 & YEAR END PROJECTION

	Income as at 30 Sept 18	2018/19 Projected
	£'000	£'000
Investments advised by Arlingclose:		
Money Market Funds (VNAV)	4	10
Diversified Income Fund (Investec)	62	210
Property Fund (CCLA)	124	250
Pooled Funds	111	320
Total	**301**	**790**
Internal Investments:		
Certificates of Deposit (CD's)	7	10
Corporate Bonds	22	30
Floating Rate Notes (FRNs)	8	10
Fixed Term Deposits	47	60
Money Market Funds (CNAV) & Business Reserve Accounts	15	20
Total	**99**	**130**
Other Interest:		
Miscellaneous Loans	78	150
Total	**78**	**150**
Total Treasury Investment Income	**478**	**1070**
Treasury Income Budget	**364**	**728**
Surplus	**114**	**342**

Appendix 1C

Minimum Revenue Provision Policy Statement 2018/19 (Updated)

1. Introduction

1.1. Where the Authority finances capital expenditure through borrowing it must put aside resources to repay it. This is usually undertaken by a charge to the annual revenue budget known as Minimum Revenue Provision (MRP).

1.2. It is also possible to use or 'set aside' capital receipts to repay capital borrowing. This may be in lieu of and/or additional to a charge to the revenue budget.

1.3. The Local Government Act 2003 requires the Authority to 'have regard' to the Ministry for Housing, Communities and Local Government (MHCLG) Statutory Guidance on Minimum Revenue Provision. The Regulations gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'.

1.4. The Guidance was updated in February 2018, with the requirement that it is fully implemented from 2019/20 financial year, however early adoption is encouraged. This latest edition provides specific guidance related to investment properties. The duty to make MRP extends to investment properties where their acquisition has been partially or fully funded by an increase in borrowing or credit arrangements. However the Guidance states that as depreciation is not charged on investment properties the Depreciation method is not a suitable approach for calculating the MRP to be charged in respect of investment properties

1.5. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their CFR. In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

1.6. A full revision of the MRP Policy will be provided for consideration at Full Council in February 2019. In the meantime, a minor revision is proposed now in respect of Investment Properties.

2. The Policy

2.1. 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 £9,113,000.

2.2. For capital expenditure on operational assets 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:

a) In equal instalments
b) Using an annuity basis

2.3. For freehold land, MRP will be applied over 50 years, except where there is a structure on the land which the Council considers to have a life of more than 50 years where in such cases the longer life may also be applied to the land.

2.4. For capital expenditure not related to council assets but which has been capitalised by regulation or direction (e.g. capital grants to third parties) will be charged in equal instalments over a period of up to 25 years.

2.5. 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 lease obligation.

2.6. For investment properties, MRP will be calculated over a period of no more than 50 years, and MRP may be calculated by either of the following methods:

a) In equal instalments
b) Using an annuity basis
c) Weighted to reflect projected net income cash flows over the expected life of investment (up to 50 years)

2.7. MRP will normally be charged from the start of the financial year after the expenditure is incurred.

2.8. The Section 151 Officer is responsible for calculating the Minimum Revenue Provision in line with the policy approved by Full Council.

Report of Executive Decisions

Director:	*Netta Meadows, Director (Strategy & Commissioning)*
Lead Officer:	*Angela Cox, Democratic Services Specialist*
Contact Details:	*angela.cox@southsomerset.gov.uk or (01935) 462148*

This report is submitted for information and summarises decisions taken by the District Executive and Portfolio Holders since the last meeting of Council in September 2018. The decisions are set out in the attached Appendix.

Members are invited to ask any questions of the Portfolio Holders.

Background Papers

All Published

Val Keitch, Leader of the Council
Angela Cox, Democratic Services Specialist
angela.cox@southsomerset.gov.uk or (01935) 462148

Appendix

Portfolio	Subject	Decision	Taken By	Date
Health, Housing, Leisure & Culture	Direct Hostel Provision, Move-on Accommodation and Support	District Executive agreed to:- a. approve an increase to the base budget of up to £160,000 per year from 2019/20 as an unavoidable budget pressure to provide funding for services to assist single adults who are in need of accommodation and to prevent homelessness. b. award funding of £160,000 to Home Group, the current provider, for 2019/20 through extension of our existing Service Level Agreement for one year. c. authorise officers to assess, develop and procure a longer term arrangement for 2020/21, and delegated the final decision on the route to procurement to the Director – Service Delivery, in consultation with the Specialist - Procurement and the Portfolio Holder for Leisure and Culture. d. note the outcomes achieved as a result of SSDC funding in 2017/18, and funding awarded from Somerset Positive Lives partnership. e. support the use of £100,000 of the Flexible Homelessness Support Grant (FSHG) as a one-off contribution towards the £160,000 cost in 2019/20, and note that contributions may be considered against any subsequent FSHG received in later years.	District Executive	04/10/2018
Strategic Planning (Place Making) Property, Climate Change & Income Regeneration	Update on the Development Consent Order Application for the Dualling of the A303 Sparkford to Ilchester	District Executive agreed to note the report and its contents, review and approve: a. delegated authority for the Council's Relevant Representations be given to the Lead Specialist, Strategic Planning with the relevant Portfolio Holders (Strategic Planning and Property & Climate Change and Income Generation).	District Executive	04/10/2018
Environment, Economic Development & Transformation	SSDC Transformation Programme – Progress Report	District Executive noted the progress report of the SSDC Transformation programme.	District Executive	04/10/2018

Portfolio	Subject	Decision	Taken By	Date
Strategy and Policy	Corporate Performance Report 2018-19: 2nd Quarter	District Executive noted the Corporate Performance Report 2018-19: 2nd Quarter.	District Executive	01/11/2018
Finance and Legal Services	Loan to Queen Camel Community Land Trust for the purchase of the Old School site, Queen Camel	This agenda item was deferred to a future meeting of the District Executive.	District Executive	01/11/2018
Finance and Legal Services	2018/19 Revenue Budget Monitoring Report for the Period Ending 30th September 2018	District Executive:- a. noted the current 2018/19 financial position of the Council; b. noted the reasons for variations to the previously approved Directorate Budgets as detailed in paragraph 9, Table 1; c. noted the virements made under delegated authority as detailed in Appendix B; d. noted the transfers made to and from reserves outlined in paragraph 27, Table 4 and the position of the Area Reserves as detailed in Appendix C and the Corporate Reserves as detailed in Appendix D.	District Executive	01/11/2018
Finance and Legal Services	2018/2019 Capital Budget Monitoing Report for the Period Ending 30th September 2018	District Executive:- a. noted the content of the report; b. approved the revised Capital Programme spend profile as detailed in paragraph 7, Table 1; c. approved the projects listed on Appendix B remain in the capital programme.	District Executive	01/11/2018
Strategy & Policy	Notification of an Urgent Decision: Lease between SSDC and Somerset County Council (SCC) – in relation to the first floor of Brympton Way Offices, Yeovil	District Executive noted the urgent executive decision made by the Chief Executive in consultation with the Council Leader and Portfolio Holder for Property, Climate Change and Income Generation to vary the lease with Somerset County Council for the first floor of Brympton Way offices (by way of deed of variation) to include a mutual rolling break clause, being one exercisable by either party at any time from 1 April 2019 during the remainder of the lease term from April 2019. The notice period of 12 months to remain.	District Executive	01/11/2018

Audit Committee

This report summarises the items considered by the Audit Committee on Thursday 25th October:

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28. Internal Audit Annual Activity Report 2018/19 (Agenda Item 6)

The Assistant Director, South West Audit Partnership, presented his report to members.

He explained that the report covered the progress to date as well as highlighting any changes made to the plan. He informed members that the report would usually include any significant findings, however no significant findings had been found and advised that the report was a short one.

He drew members attention to page 10 of the agenda which detailed some changes to the plan. He explained that the reason for some of these changes were due to the organisational changes at SSDC.

He advised members that an overview of the Audit Plan to date could be found on page 13 of the agenda. He advised that the Commercial Strategy and the Income Generation review had been started and that the initial evaluation was positive. He informed members that he was aware of the CIPFA guidelines on what Commercial Investments should be used for.

In response to questions from members, he suggested that concerns over Brexit should be raised at the next Risk Management Group meeting.

RESOLVED: that members **noted** the report and the progress made in the delivery of the 2018/19 internal audit plan and that no significant findings had been identified since the previous update in June 2018.

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29. Treasury Management Practices (Agenda Item 7)

The Finance Specialist presented his report to members.

He advised that this was an annual update report, which detailed amendments to the Treasury Management Practices for South Somerset District Council. He explained that the changes to the practices reflected either the transformation organisational changes, such as changes to job titles, or were required due to the updated Code of Practice.

He explained that the changes were clearly highlighted within the report, explaining a number of the changes in detail.

He drew members' attention to the new TMP 13 which related to non-treasury investments. He advised that an updated capital strategy would be produced in February and would be bought to Audit Committee.

In response to questions, he clarified some points of detail.

RESOLVED: that members noted that the TMP's have been reviewed and updated to reflect both organisational changes and the requirements of updated Codes of

Practice, in particular the new TMP 13 concerning Non-Treasury Investments and approved the Treasury Management Practices included in the agenda report.

(Voting: unanimous)

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30. Treasury Management Strategy Statement and Investment Strategy 2018/19 – Mid-year review (Agenda Item 8)

The Finance Specialist presented his report to members. He explained that the mid-year review covered the treasury management performance for the first 6 months of the financial year.

He drew member's attention to the regulatory updates which were detailed on page 55 of the agenda, explaining that the changes to the Treasury Management Practices had been incorporated into the previous report.

He also advised members that the MHCLG had updated its Statutory guidance on the Minimum Revenue Provision; the changes were detailed on page 71, appendix 1C.

He responded to members' questions and confirmed that the team were continually speaking to the treasury management advisors for advice around borrowing.

He pointed out the economic background details within the statement on page 57 and 58. He also pointed out figures on page 69, advising that the third column of the chart provided the current position of investments as well as projections on the fourth and fifth column.

RESOLVED: that members noted the actual and forecast treasury performance and endorsed the updated Treasury Management Strategy for recommendation to Full Council.

(Voting: unanimous)

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31. Risk Management Strategy Update (Agenda Item 9)

The Procurement Specialist provided members with a presentation which detailed the Risk Management work plan. He also explained to members that his presentation would include different options for graphic visualisation of risk.

He agreed to provide regular reports to the Audit Committee to cover the current corporate risk register.

He explained to members that the objectives of the work plan was to;

- ensure that the risk management approach supported the SSDC organisational objectives, such as the commercial strategy and project delivery aspect.
- ensure that there was a consistent and transparent approach to risk
- develop a proactive and engaged risk approach and culture for officers
- ensure that the risk register would be easier to understand and to deliver.
- improve the visualisation and communication of risk

He explained that there was a risk contingency budget, allowed for in our current insurance arrangements, which were being used to provide external consultant support to SSDC to help prepare and run workshops to officers and to develop Risk Champions. He explained that the Risk Champions would communicate and escalate concerns appropriately.

He explained the area of focus and the activities, which were planned. This included a review of existing risks and to ensure that there was a consistent thread running through all risks across SSDC. He also hoped to develop a clearer picture of which risks were strategic, corporate and operational to ensure that reviews were taking place at the correct level.

In response to a member's question, the Director - Strategy and Support Services, explained that the aim is to have one consistent approach in how we display risk, be that within committee reports, on project risk logs, or our risk registers.

The Procurement Specialist provided some examples of ways to visually display risk and explained that it was his aim to ensure that risk visualisations were transparent and easy to understand. It was noted that there were many options to display and present risk.

One member explained that risk could be hard to understand and hoped that the new way of presenting risk would be clear and easy to read.

RESOLVED: that members noted the presentation.

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32. Audit Committee Forward Plan (Agenda Item 10)

Members noted the Audit Committee Forward Plan and it was agreed that there would be a Risk Register update report on the December agenda.

RESOLVED: members noted the Audit Committee Forward Plan.

Cllr Derek Yeomans,
Chairman of Audit Committee

Scrutiny Committee

This report summarises the work of the Scrutiny Committee since the last report to Full Council. The Committee met on 2 and 30 October 2018 to consider:

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2 October 2018

Reports to be considered by District Executive on 4 October 2018

Members considered the reports within the District Executive agenda for 4 October and made comments as detailed below. Responses to most comments and questions were provided at the Scrutiny Committee by the relevant officer, Director or Portfolio Holder.

Direct Hostel Provision, Move-on Accommodation and Support (Agenda item 6)

- Scrutiny supported the recommendations of the report.
- Members queried what they could do and who to contact if they found someone sleeping outside.
- Members suggested a small business card with the contact details of the SSDC Homeless Service to hand to vulnerable individuals to encourage them to contact the service.
- It was suggested that the financial information in paragraph 45 could be separated into a more readable format or table.

Update on the Development Consent Order Application for the dualling of the A303 Sparkford to Ilchester (Agenda item 7)

- Members expressed concern that the process should not be delayed.
- Members expressed concern that officers were stretched and the Lead Specialist for Strategic Planning acknowledged that additional support was needed.

SSDC Transformation Programme (Agenda item 8)

- Members asked if the Locality Teams would be fully operational in January 2019.
- Members asked for the position of the Streetscene service.
- Members asked if more roles were to be scoped.
- Members asked about morale with respect to internal communications.
- Members asked about support to the Area Committees in the future.
- Members asked if there were any issues with the Civica software following the outturn report from South Hams Scrutiny Committee.

30 October 2018

Reports to be considered by District Executive on 1 November 2018 (Agenda Item 8)

Members considered the reports within the District Executive agenda for 1 November 2018 and made comments as detailed below. Responses to comments were provided at the Scrutiny Committee by the relevant officer or Portfolio Holder.

Corporate Performance Report 2018-2019; 2nd Quarter (Agenda item 6)

- Agenda page 8 'Targets' – members sought clarity as to when the KPIs without targets would have a target set.
- Page 12 – indicator 12 – members queried if a reason was known for the increase in missed waste and recycling collections.

Loan to Queen Camel Community Land Trust for the Purchase of the Old School Site, Queen Camel (Agenda item 7)

(Post meeting note - This item was deferred to a future meeting of the District Executive.)

2018/19 Revenue Budget Monitoring Report for the Period Ending 30 September 2018 (Agenda item 8)

- Page 44 – members queried if reasons were known for the income being below forecast for car parking and Building Control income.

2018/19 Capital Budget Monitoring Report for the Quarter Ending 30 September 2018 (Agenda item 9)

- Table 3, Page 52 – Some members expressed concern that if the Lyde Road Pedestrian and Cycleway scheme was not pushed forward there may be of risk of losing some of the grant funding. Members felt an update on progress was required.
- Table 4, page 53 – members noted the funding for the Capital Programme was well documented in the report, but the contingency funding was not as detailed. Members felt the contingency funding needed more referencing.
- Page 62 – Gas Control System at Birchfield – Members asked if a date had been set for the project as the situation had been ongoing for several years, and was potentially becoming increasingly urgent, delay could have a detrimental impact on other projects in the same area. Members requested a brief update for the next meeting of Scrutiny Committee.

Notification of an Urgent Executive Decision: Lease Between SSSDC and SCC – in Relation to the First Floor of Brympton Way Offices, Yeovil (Agenda item 10)

- No comments.

District Executive Forward Plan (Agenda item 11)

- Some members asked if it was possible to include information in the next Transformation update report, regarding the effect of Transformation on our communities.

Draft Economic Development Strategy

Members had a thorough discussion with the Lead Specialist (Economy) and Managing Director of Chilmark Consulting, to gain an understanding of the process to date to source evidence to inform the draft Economic Development Strategy.

At the time of publishing this agenda for full Council, the draft minutes for Scrutiny Committee were incomplete. The full minutes will be available to view on the website towards the end of November.

Verbal update on Task and Finish reviews

Members noted the updates provided by the Scrutiny Specialist on each of the Task and Finish Groups currently in progress.

Council Tax Support Scheme 2019 – The task and Finish group have agreed their recommendations and the Scrutiny Specialist is in the process of collating all the evidence to draft the report for Scrutiny Committee.

Homefinder Somerset Plain English Policy - No updates since the last meeting. All the Councils have postponed work on this primarily due to Transformation type related activities.

Customer Accessibility – Officers are developing their programmes for all website and portal services and once at a stage for testing the Task and Finish group will be involved.

Rural Allocations Policy – This has now been picked up by the Strategy and Commissioning team, they have looked at the work of the previous Task and Finish group and hope to do some work early in the New Year.

Cllr Sue Steele
Chairman of Scrutiny Committee

Date of Next Meeting

Members are asked to note that the next scheduled meeting of the Full Council will take place on **Thursday, 13th December 2018** in the Council Chamber, Council Offices, Brympton Way, Yeovil **commencing at 7.30 p.m.**