
South Somerset District Council

Thursday 18th July 2019

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 10 July 2019.

Alex Parmley, Chief Executive Officer

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



South Somerset District Council Membership

Chairman: Paul Maxwell
Vice-chairman: Jenny Kenton

Jason Baker	Henry Hobhouse	David Recardo
Robin Bastable	Ben Hodgson	Paul Rowsell
Mike Best	Charlie Hull	Dean Ruddell
Neil Bloomfield	Kaysar Hussain	Gina Seaton
Dave Bulmer	Val Keitch	Peter Seib
Hayward Burt	Andy Kendall	Garry Shortland
Tony Capozzoli	Tim Kerley	Alan Smith
Martin Carnell	Mike Lewis	Jeny Snell
Malcolm Cavill	Mike Lock	Andy Soughton
John Clark	Pauline Lock	Mike Stanton
Nicola Clark	Tony Lock	Rob Stickland
Louise Clarke	Kevin Messenger	Lucy Trimmell
Nick Colbert	Graham Oakes	Gerard Tucker
Adam Dance	Tricia O'Brien	Anthony Vaughan
Sarah Dyke	Sue Osborne	Linda Vijeh
Karl Gill	Tiffany Osborne	Martin Wale
David Gubbins	Robin Pailthorpe	William Wallace
Peter Gubbins	Clare Paul	Colin Winder
Brian Hamilton	Crispin Raikes	
Mike Hewitson	Wes Read	

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

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.

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.

Ordnance Survey mapping/map data included within this publication is provided by South Somerset District Council under licence from the Ordnance Survey in order to fulfil its public function to undertake its statutory functions on behalf of the district. Persons viewing this mapping should contact Ordnance Survey copyright for advice where they wish to licence Ordnance Survey mapping/map data for their own use. South Somerset District Council - LA100019471 - 2019.

South Somerset District Council

Thursday 18 July 2019

Agenda

1. Apologies for Absence

2. Minutes

To approve and sign the minutes of the previous meeting held on Thursday, 20th June 2019.

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 (Page 6)

7. Presentation from the Yarlington Housing Group (Page 7)

8. Presentation from the Fire Brigade Union on the Safer Together Consultation (Page 8)

9. 2018/9 Treasury Management Activity Report (Pages 9 - 24)

10. Appointment of an Independent Person to the Audit Committee (Pages 25 - 29)

11. Membership of Committees - Appointment of New Councillor to Audit Committee (Page 30)

12. Report of Executive Decisions (Pages 31 - 33)

13. Motions

No Motions have been submitted by Members.

14. Questions Under Procedure Rule 10

There have been no questions submitted under Procedure Rule 10.

15. Date of Next Meeting (Page 34)

Agenda Item 6

Chairman's Engagements

23rd June

The Chairman and his wife attended the Glorious Garden Celebration Charity event held at Carrington House, Wincanton.

At the invite of the Mayor of Chard, the Vice-Chairman attended the Chard Town Council Mayor Making Ceremony, held at St Marys Church, Chard.

30th June

At the invite of the Mayor of Yeovil, the Chairman and his wife attended the Yeovil Town Council Annual Civic Service and Reception, held at St Johns Church and Westland Entertainment Venue.

1st July

The Chairman visited Combe St Nicholas School to celebrate the official opening of the Early Years Play Area. The Bishop of Taunton was also at the school to celebrate the official opening and blessing of the play area.

4th July

At the invite of the Chair of Somerset County Council, the Chairman and his wife attended the Somerset Chair Awards for Community Service which was held at the Taunton Rugby Club.

Agenda Item 7

Presentation from the Yarlington Housing Group

Executive Portfolio Holder: Val Keitch, Strategy and Housing
Director: Martin Woods, Service Delivery
Contact Details: martin.woods@southsomerset.gov.uk or (01935) 462071

Caroline Moore (Managing Director) and Simon Shewry (Head of Enterprise and Service Change) from the Yarlington Housing Group will provide Members with a presentation on the homes and services which the organisation provide in the area, followed by questions.

The Yarlington Housing Group own and manage over 10,000 properties, and offer a wide range of tenancies to suit the diverse needs of their customers.

<https://www.yhg.co.uk/>

Agenda Item 8

Presentation from the Fire Brigade Union on the Safer Together Consultation

Executive Portfolio Holder: Val Keitch, Strategy and Housing
Director: Netta Meadows, Strategy and Support Services
Contact Details: Netta.meadows@southsomerset.gov.uk or (01935) 462200

Officers from the Fire Brigade Union will attend to provide Members with a presentation on the possible consequences of the proposals contained on the Devon and Somerset Fire and Rescue Service's Safer Together Consultation, followed by questions.

Details of the Consultation can be found at:

<https://www.dsfire.gov.uk/SaferTogether/ServiceDeliveryConsultation/TakePartInTheConsultation.cfm?siteCategoryId=18&T1ID=211&T2ID=460>

Agenda Item 9

2018/19 Treasury Management Activity Report

Director Netta Meadow, Director – Strategy and 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 Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the 2018/19 financial year as prescribed by the CIPFA Code of Practice and in accordance with the Council's Treasury Strategy, Annual Investment Policy and Treasury Management Practices. The report was considered by Audit Committee at their meeting on 27th June where it was unanimously agreed to recommend the report to Council.

Recommendations

2. The Council is recommended to:
 - Note the Treasury Management Activity for the 2018/19 financial year;
 - Note the position of the individual prudential indicators for the 2018/19 financial year;
 - Note the outlook for the investment performance in 2018/19;
 - Note the council operated within all of the Prudential Indicators during 2018/19.

Background

3. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, produce a six month and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
4. The Council's Treasury Management Strategy for 2018/19 was approved by Full Council on 22 February 2018. The Council has borrowed and 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 remains central to the Council's Treasury Management Strategy.
5. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 26 February 2019.
6. Overall responsibility for treasury management remains with the Council. The day to day treasury management operation is delegated to the S151 Officer and is undertaken by the Finance function which is part of the Strategy and Support Services directorate. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

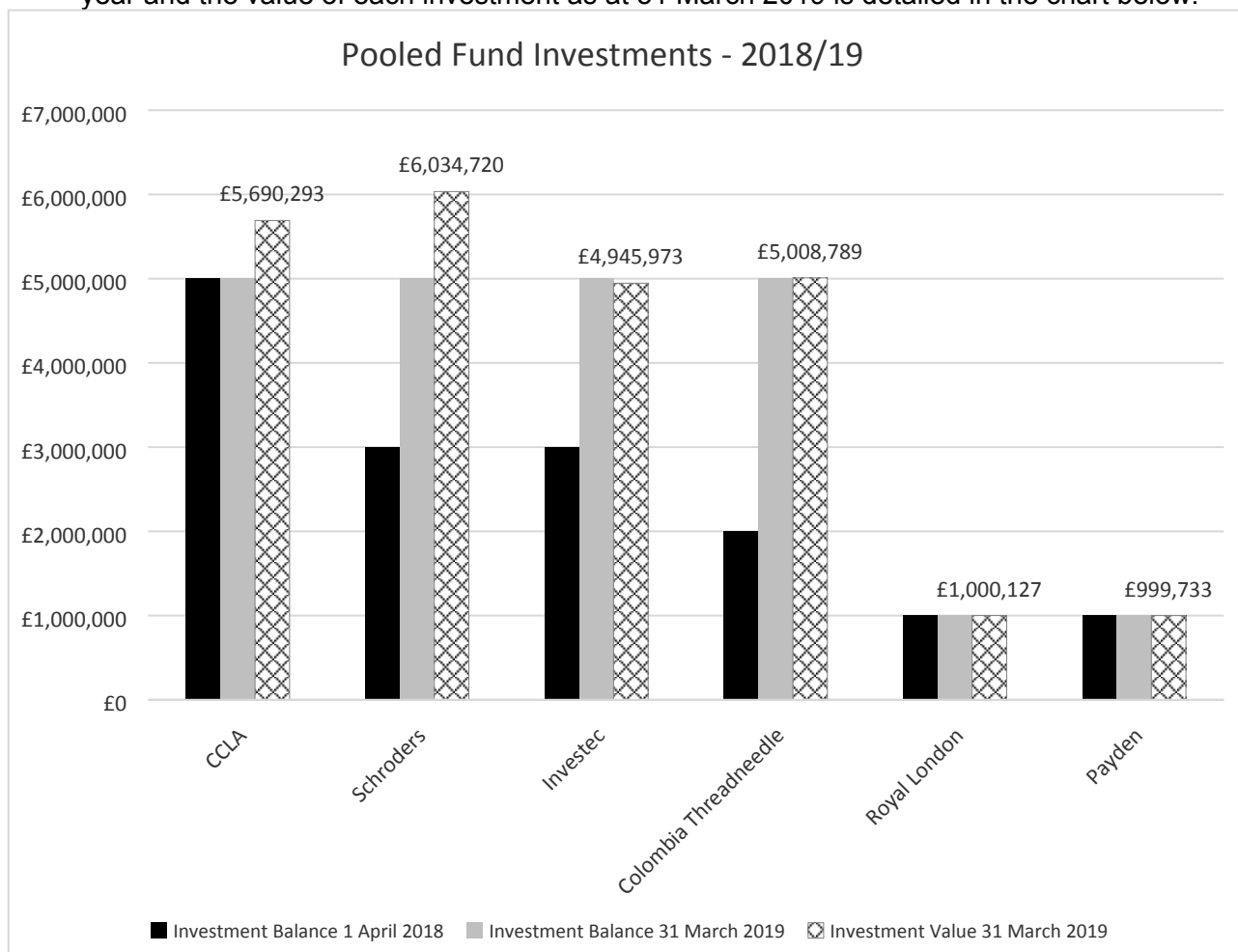
7. This report provides information on the performance of the Council's Treasury Investments in 2018/19. The performance of the Council's Commercial Investments which are part of the Commercial strategy are not included in this report.

Investment Activity

8. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Council's investment balance ranged between £30 million and £50 million.

9. Both the CIPFA Code and government 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.

10. The Council's best performing investments in 2018/19 were the investments in the Pooled Funds (Strategic Investments). details of the investment balance at the start and end of the financial year and the value of each investment as at 31 March 2019 is detailed in the chart below.



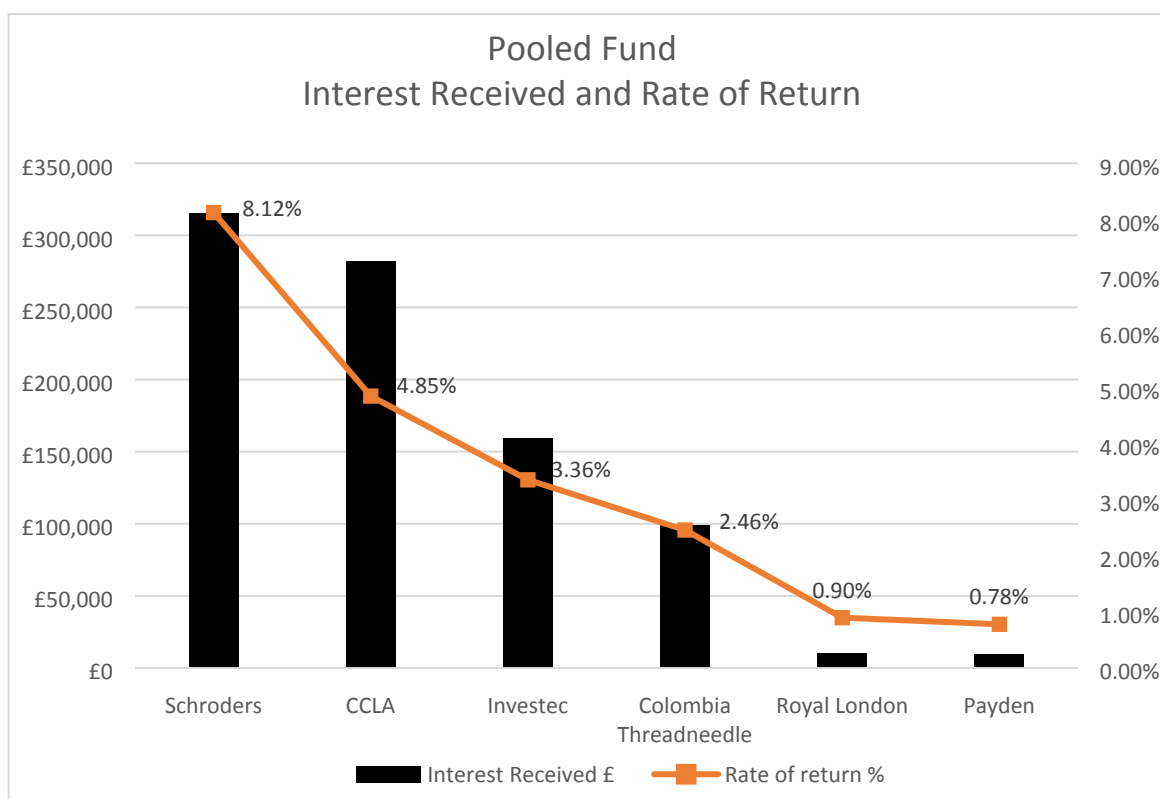
Note: Pooled fund investments are revalued at the end of the financial year to reflect the fair value of the investment, the third bar in the graph signifies this value and details the investment value as at 31 March 2019. The first and second bars represent the investment balance in each fund at that date.

Pooled Fund Investments 2018/19

The table below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year end revaluation.

Investment Type	Investment Balance		Investment Fair Value	
	01-Apr-18	31-Mar-19	01-Apr-18	31-Mar-19
CCLA	£5,000,000	£5,000,000	£5,603,228	£5,690,293
Schroders	£3,000,000	£5,000,000	£2,984,650	£6,034,720
Investec	£3,000,000	£5,000,000	£2,948,061	£4,945,973
Colombia Threadneedle	£2,000,000	£5,000,000	£2,000,000	£5,008,789
Royal London	£1,000,000	£1,000,000	£999,119	£1,000,127
Payden	£1,000,000	£1,000,000	£1,000,713	£999,733
Total	£15,000,000	£22,000,000	£15,535,771	£23,679,635

The income generated from these investments in 2018/19 and the rate of return is detailed in graph and table below.



Fund	Interest Received £	Rate of return %
Schroders	315,013	8.12%
CCLA	281,579	4.85%
Investec	159,202	3.36%
Colombia Threadneedle	99,147	2.46%
Royal London	10,427	0.90%
Payden	9,058	0.78%
Total	874,425	4.21%

11. Pooled 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 is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.
12. In light of their strong performance and the Council's latest cash flow forecasts, investment in these funds has been increased and has proved to be successful during the 2018/19 financial year with capital values increasing overall and a good return on investments achieved.
13. The investment strategy approved in the 2019/20 Treasury Management Strategy Statement recommended that the Council maintains its investments in the secure and higher yielding asset classes given the increasing risk and very low returns from short-term unsecured bank investments.
14. The graph above and table detailing interest received, and the rate of return on investments demonstrates that the approved policy has met the objectives of the investment strategy. It is anticipated that the level of strategic (long-term) investments will remain in the region of £25m in 2019/20 with the possibility of increasing these investments, if cash flow permits, in line with the Council's overall Financial Strategy and income generation targets. The diversification into strategic investments represents a continuation of the strategy adopted in 2017/18.

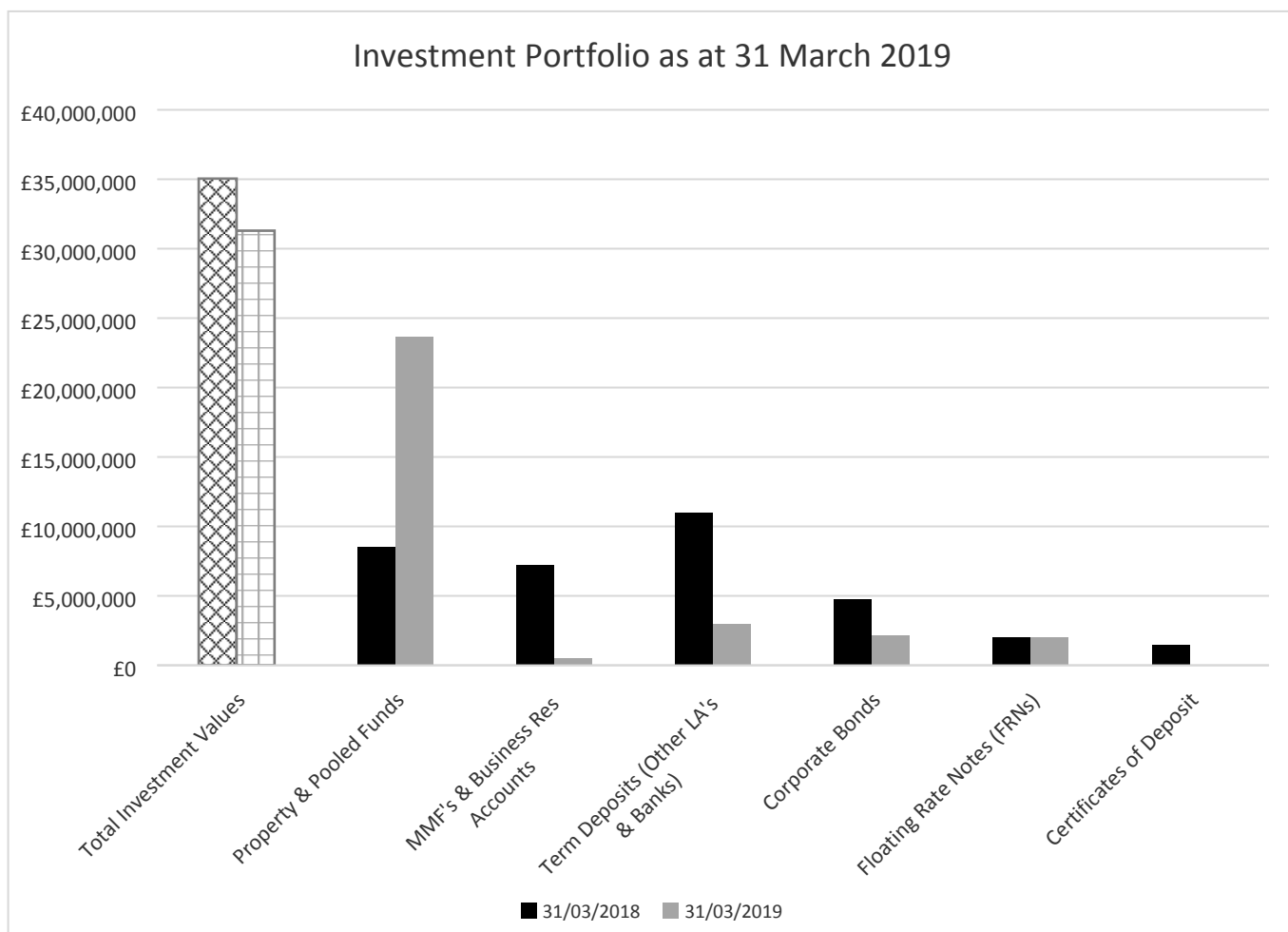
Interest Rates 2018/19

15. As detailed in the Arlingclose external context provided in Appendix A, the Bank of England base rate began the financial year at 0.50%, this was increased to 0.75% in August 2018. The Bank of England Monetary Policy Committee has maintained expectations of a slow rise in interest rates over the period included in the table below, but with rates remaining low for the foreseeable future.
16. The Arlingclose central case incorporates the likelihood of the MPC raising interest rates in the first quarter of 2020.

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.21
Arlingclose Central Case	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.10
Downside risk	0.00	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.77

Investment Portfolio – Values and Returns

17. The graph below provides a snapshot of the Council's portfolio of investments at the end of the 2018/19 financial year, in comparison to the previous year end position.



18. The table below provides additional information on the actual value of investments at the start and end of the 2018/19 financial year:

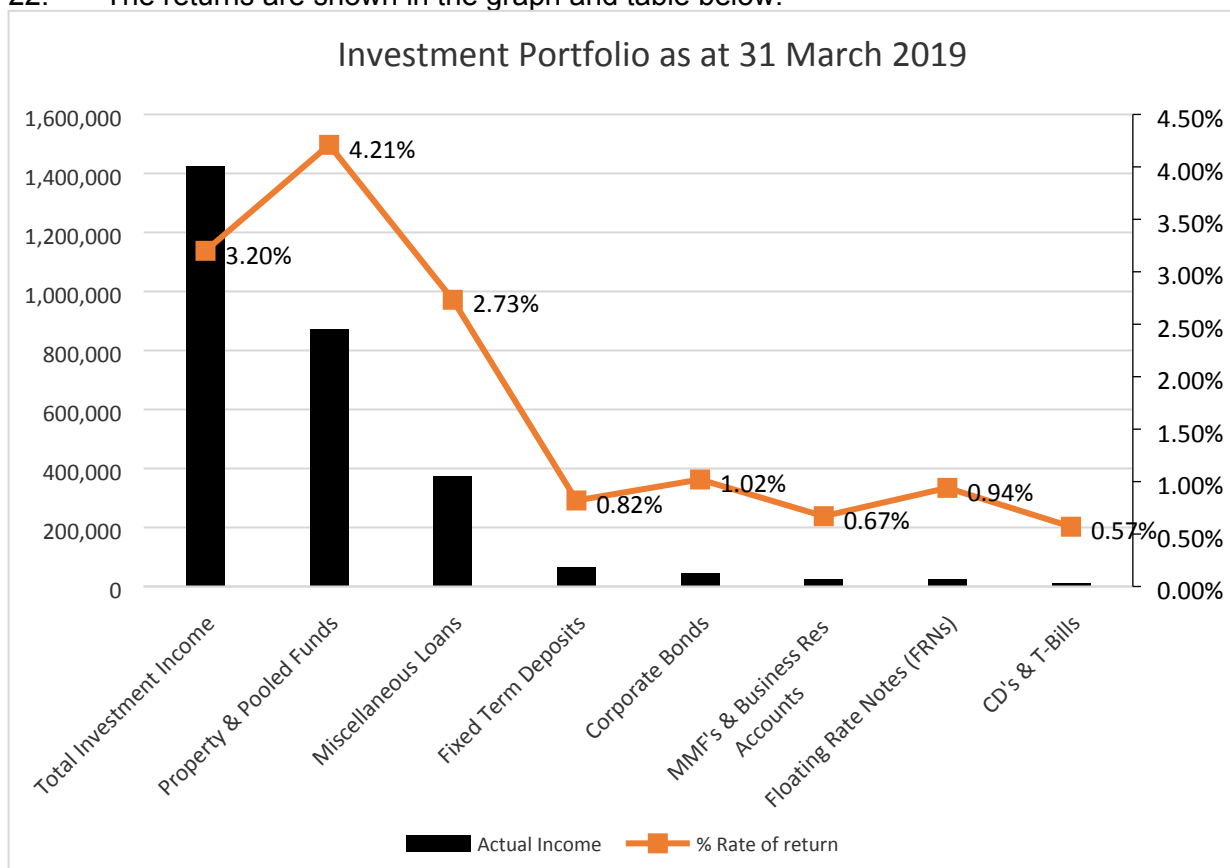
Investment type	Investment Value as at 31/03/2018 £	Investment Value as at 31/03/2019 £	Actual Income £	Rate of return %
Property & Pooled Funds	8,551,289	23,679,635	874,425	4.21%
Money Market Funds & Business Reserve Accounts	7,214,482	479,810	25,772	0.67%
Term Deposits (Other LA's & Banks)	11,000,000	3,000,000	67,138	0.82%
Corporate Bonds	4,767,078	2,129,992	46,684	1.02%
Floating Rate Notes (FRNs)	2,008,716	2,006,968	25,100	0.94%
Certificates of Deposit	1,502,877	0	12,458	0.57%
Total Investment Values	35,044,442	31,296,405	1,039,119	3.20%

19. The Council's year end investments as at 31 March 2019 were £3.75m less than as at 31 March 2018, Investments arise due to timing differences in expenditure being made and income being received, this can mean that the year end investment balance can be slightly less or more than the previous financial year. The reduction in investments is not due to a change in the Council's investment policy.

20. There is a significant difference in the types of investment that the Council held at the 31 March 2018 and 31 March 2019. As mentioned above, the switch to higher yielding, long term strategic investments have resulted in a large portion of the Council's investment being concentrated in the pooled and property fund investment type. Pooled and property fund investments amounted to 76% of the investment portfolio as at 31 March 2019 (24% as at 31 March 2018).
21. The Council has worked closely with Arlingclose on the investment diversification, Arlingclose are comfortable with the percentage of investment that the Council holds in pooled and property funds. The Council continually monitors the performance of the property and pooled funds and is able to withdraw funds at short notice if the fund performance were to deteriorate. Equally, the Council may borrow short term to manage cash flow variations if necessary.

Returns achieved in 2018/19

22. The returns are shown in the graph and table below:



Investment type	Actual Income £	Rate of return %
Property & Pooled Funds	874,425	4.21%
Miscellaneous Loans	373,279	2.73%
Fixed Term Deposits	67,138	0.82%
Corporate Bonds	46,684	1.02%
Money Market Funds & Business Reserve Accounts	25,772	0.67%
Floating Rate Notes (FRNs)	25,100	0.94%
Certificates of Deposit & T-Bills	12,458	0.57%

2018/19 Treasury Investment Income	1,424,856	3.20%
2018/19 Treasury Income Budget	763,530	
Surplus	661,326	

23. The table above shows investment income for the year compared to the budget. The figures show a significant surplus over budget of £661,326. The original treasury management budget of £763,530 was derived by forecasting an average rate of return of 1.52% based on an average investment portfolio of £48m. The actual average investment return achieved during the year was 3.20%, and the average portfolio balance was £40m.
24. The surplus over budget is as a result of a number of factors, the main factors being:
- Additional interest received due to the diversification into long term strategic investments
 - A new loan for service purposes has been made in year resulting in additional interest.
25. The outturn position is also affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of revenue and capital income and expenditure, and the collection and distribution of council tax and business rates income.

Treasury Investments

26. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19. The table below lists the investments held on 31 March 2019.

Breakdown of investments as at 31 March 2019

Date Invested	Counterparty	Nominal Amount	Rate %	Maturity Date
11 Nov 16	Northumberland County Council	1,000,000	1.00	11 Nov 20
09 Feb 17	Liverpool City Council	2,000,000	0.92	11 Nov 19
	Corporate Bonds			
20 Oct 16	Santander UK Plc *Covered*	1,000,000	1.04	14 Apr 21
10 Nov 16	National Australia Bank *Covered*	1,000,000	1.10	10 Nov 21
	Floating Rate Notes (FRN's)			
16 Jan 17	Lloyds Bank Plc *Covered*	1,600,000	0.99	16 Jan 20
16 Jan 17	Lloyds Bank Plc *Covered*	400,000	0.98	16 Jan 20
	Money Market Funds			
	Aberdeen (previously Standard Life)	480,000	0.53	
	Property & Pooled Funds			
	Payden Fund VNAV	1,000,000	0.78	
	Royal London Cash Plus Fund	1,000,000	0.58	
	CCLA Property Fund	5,000,000	3.62	
	Investec Diversified Income Fund	5,000,000	2.99	
	Schroder Income Maximiser Fund	6,250,000	5.69	
	Colombia Threadneedle Equity Income Fund	5,000,000	2.15	
	TOTAL	30,730,000		

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

Non-Treasury Investments

27. 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 Council also held £11.24m of such investments in

- Loan to Community Organisation - £0.17m
- Loan to Local Authority Partnership - £1.23m
- Loan for Commercial Activities - £9.84m

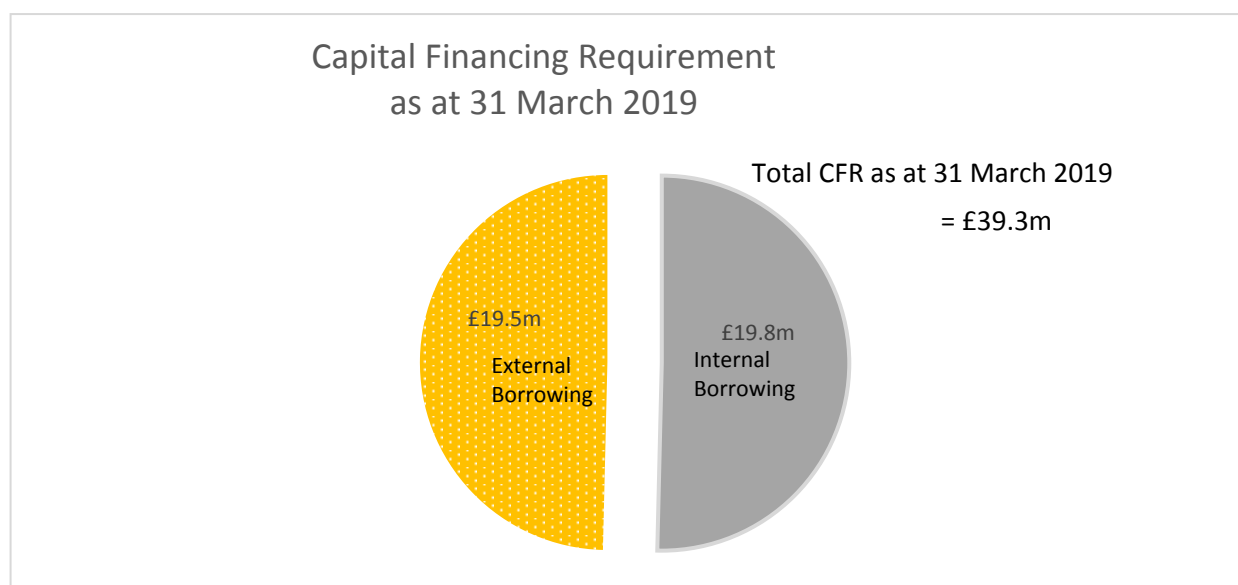
Borrowing

28. The Council's primary objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
29. In keeping with these objectives, new borrowing was kept to a minimum, with the longest duration being a 69 day period. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
30. As at 31 March 2019 the Council had external borrowing of £19,500,000 as part of its strategy for funding the capital programme and the purchase of commercial property.
31. Details of the borrowing are included in the table below.

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £	2018/19 Interest £	Total Interest £
The Vale of Glamorgan Council	22/01/19	01/04/19	69	0.79%	1,500,000	2,240	2,240
Derbyshire County Council Pension Fund	15/02/19	01/04/19	45	0.90%	10,000,000	11,096	11,096
Coventry University	18/03/19	18/04/19	31	0.90%	8,000,000	2,762	6,115
				Total	19,500,000	16,098	19,451

32. With short-term interest rates remaining much lower than long-term rates, the Council considered it to be more cost effective in the near term to use internal resources in parallel with short-term loans.
33. The Council's underlying need to borrow is defined as its 'Capital Financing Requirement (CFR)'. The CFR was £17.4 million at the beginning of 2018/19. Capital expenditure during 2018/19 was funded through a combination of capital receipts, revenue reserves, external contributions (e.g. S106 receipts) and borrowing. As a result, the borrowing requirement (CFR) has increased to £39.3 million. However, we have followed a strategy of using our cash reserves to finance this borrowing requirement in the short term – known as "internal borrowing" – as short term investment returns foregone are currently lower than longer term borrowing rates.

	£millions	%
Internal Borrowing	£19.8m	50.4%
External Borrowing	£19.5m	49.6%
Capital Financing Requirement as at 31 March 2019	£39.3m	



Prudential Indicators – 2018/19

34. In February 2018, through approval of the Treasury Management Strategy Full Council approved the Prudential Indicators for 2018/19, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allows local authorities to determine their own borrowing limits provided they are affordable and that every local Council complies with the Code.

Prudential Indicator 1 - Capital Expenditure:

35. The actual capital expenditure incurred for 2018/19 compared to the revised estimate was:

	2017/18 Outturn £'000	2018/19 Revised Estimate £'000	2018/19 Outturn £'000	2018/19 Variance £'000	Reason for Variance
Approved capital schemes	16,424	33,652	28,414	(5,237)	Timing of investment property acquisitions
Total Expenditure	16,424	33,652	28,414	(5,237)	

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

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

	2017/18 Outturn £'000	2018/19 Revised Estimate £'000	2018/19 Outturn £'000	2018/19 Variance £'000	Reason for Variance
Financing Costs	(434)	(613)	(1,047)	(434)	Additional investment income from the Pooled Funds
Net Revenue Stream	17,798	16,608	16,348	(260)	
%	(2.4%)	(3.7%)	(6.4%)	(2.7%)	

*figures in brackets denote income through receipts and reserves

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

Prudential Indicator 3 - Capital Financing Requirement:

38. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The year-end capital financing requirement for the council is shown below:

	2017/18 Outturn £'000	2018/19 Original Estimate £'000	2018/19 Outturn £'000	2018/19 Variance £'000	Reason for Variance
Opening CFR	9,338	25,499	17,439	(8,060)	
Capital Expenditure	16,926	31,204	28,414	(2,790)	Capital schemes part funded through internal borrowing in 2018/19
Capital Receipts*	(6,337)	(8,325)	(4,560)	3,765	
Grants/Contributions*	(2,319)	(2,879)	(1,711)	1,168	
Minimum Revenue Position (MRP)	(169)	(260)	(221)	39	MRP towards borrowing for commercial investments
Additional Leases taken on during the year	0	0	0	0	
Closing CFR	17,439	45,239	39,361	(5,878)	

*Figures in brackets denote income through receipts or use of revenue resources.

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

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

	2017/18 Outturn £'000	2018/19 Revised Estimate £'000	2018/19 Outturn £'000	2018/19 Variance £'000
Borrowing	0	30,000	19,500	(10,500)
Finance Leases	138	100	82	(18)
Total Debt	138	30,100	19,582	(10,518)
Capital Financing Requirement	17,439	45,239	39,361	(5,878)

40. Total debt is expected to remain below the CFR for the foreseeable future.

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

41. The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. For this purpose, term deposits of less than 365 days are deemed to be variable rate deposits. Fixed rate deposits are investments in Eurobonds, Corporate Bonds and term deposits exceeding 365 days.

Investment	2017/18 Actual %	2018/19 % Limit	2018/19 Actual %
Fixed	20.45	100%	57.14
Variable	79.55	100%	42.86

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

Borrowing	2017/18 Actual %	2018/19 % Limit	2018/19 Actual %
Fixed	0	100%	100%
Variable	0	100%	0

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

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

44. The Council must also set upper limits for any investments of longer than 364 days. The purpose of this indicator is to ensure that the Council, at any time, has sufficient liquidity to meet all of its financial commitments.

Upper Limit for total principal sums invested over 364 days	2017/18 Actual (Principal amount) £'000	2018/19 Maximum Limit £'000	2018/19 Actual (Principal amount) £'000
Between 1-2 years	4,000	50,000	6,000
Between 2-3 years	1,000		1,000

Between 3-4 years	2,000		0
Between 4-5 years	0		0
Over 5 years	0		0
Total	7,000	50,000	7,000

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

Prudential Indicator 7 – Credit Risk:

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

47. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council’s assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

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

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

Prudential Indicator 8 - Actual External Debt:

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

Actual External Debt as at 31/03/2019	£’000
Borrowing	19,500
Other Long-term Liabilities (Finance Leases)	
- Vehicles	82
- Photocopiers	0
Total	19,582

Prudential Indicator 9 - Authorised Limit for External Debt:

50. This limit represents the maximum amount that the Council may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A borrowing requirement was identified in year to finance the capital programme and further borrowing may be undertaken to fund the agreed plans to acquire investment properties. [Note the borrowing limit has increased during 2018/19]

	2017/18 Actual £'000	2018/19 Original Estimate £'000	2018/19 Actual £'000
Borrowing	0	124,000	19,500
Other Long-term Liabilities	138	1,000	82
Total	138	125,000	19,582

Prudential Indicator 10 – Operational Boundary for External Debt:

51. The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt.
52. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.
53. The S151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	2017/18 Actual £'000	2018/19 Original Estimate £'000	2018/19 Actual £'000	2018/19 Variance £'000
Borrowing	0	30,000	19,500	(10,500)
Other Long-term Liabilities	138	800	82	(718)
Total	138	30,800	19,582	(11,218)

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

54. This indicator is relevant when we borrow, then we can take a portfolio approach to borrowing in order to reduce interest rate risk. This indicator is shown as the Council has set limits in anticipation of future borrowing.

Maturity structure of fixed rate borrowing	2018/19 Upper Limit %	2018/19 Lower Limit %	2018/19 Actual %
Under 12 months	100	100	100
12 months and within 24 months	100	100	0
24 months and within 5 years	100	100	0
5 years and within 10 years	100	100	0
10 years and above	100	100	0

Compliance

55. The council operated within all of the Prudential Indicators during 2018/19.

Background Papers:

Treasury Management Strategy Statement 2018/19

Prudential Indicators and MRP Statement 2018/19

Capital Outturn 2018/19

APPENDIX A – Additional commentary from Arlinglose

External Context

Economic background: After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets: December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the

year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit background: Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Agenda Item 10

Appointment of an Independent Person to the Audit Committee

Executive Portfolio Holder: Peter Seib, Finance, Legal and Democratic Services
Director: Netta Meadows, Strategy and Support Services
Lead Officer: Angela Cox, Specialist – Democratic Services, Support Services
Contact Details: Angela.cox@southsomerset.gov.uk or 01935 462148

Purpose of the Report

To seek approval to appoint an independent person to the Audit Committee.

Public Interest

Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

Independent members with appropriate skills and experience supplement those of the elected members and improve the effectiveness of the Audit Committee.

Recommendations

That Council:

1. Approve the appointment of an independent person to sit on Audit Committee for a period of two years
2. Approve the advert, role description, skills and competencies and person specification at Appendix A.

Report

The Audit Committee considered this report at their meeting on 27th June and unanimously agreed to request that Council approve the appointment of an Independent Person (IP) to the Committee. The IP would be a non-councillor with some experience in the area of audit, similar to those on the Council's Standards Committee. The IP would not have a vote in the same way as councillors do at committee and will be there in an advisory consultative manner.

Suitably qualified and experienced independent member(s) serving on Audit Committees can also bring specialist knowledge and insight to the workings and deliberations of the committee which, when partnered with elected members' knowledge of working practices and procedures, ensure:

- An effective independent assurance of the adequacy of the risk management framework.
- Independent review of the Authority's financial and non-financial performance.
- Independent challenge to and assurance over the Authority's internal control framework and wider governance processes.

- Oversight of the financial reporting process.

It is recommended that recruitment be on a competitive basis following the Council's rules, including an open advertisement and interviews, as currently undertaken for independent members of the Standards Committee. Reasonable travel and other expenses will be paid to the person concerned. A draft person specification for the role is attached as Appendix A.

Financial Implications

Any costs associated with the recruitment, selection, appointment and subsequent disbursements to any independent panel members would need to be contained from within existing revenue service budgets.

Legal Implications

The Council's Audit Committee is defined by the Local Government Act 2000 and its purpose is to give assurance to elected members and the public about the governance, financial reporting and performance of the Council. The appointment of independent members on the committee will assist and promote good governance and scrutiny of the committee.

Key Risk

Subject to adequate vetting procedures and adherence to the Person Specification, this initiative should augment the Audit Committee's independence, provide additional expertise, and provide an opportunity for the community to play an enhanced role in the governance of the Council.

Council Plan Implications

The inclusion of independent members on the Audit Committee could be seen to strengthen the role the community plays in the internal control and governance of the authority, which supports the Council Plan theme of 'Protecting Core Services'.

Carbon Emissions and Climate Change Implications

None

Equality and Diversity Implications

Applications for the position of Independent Person to the Audit Committee will be open to all residents over the age of 18 in South Somerset.

Privacy Impact Assessment

Any personal or sensitive data collected from applicants during the recruitment process will only be used in the recruitment process and will be disposed of confidentially at the conclusion of the appointment. Information will only be processed by SSDC staff and the Chairman of the Audit Committee and will be held as confidential throughout the recruitment process.

Background Papers

Role description, skills and competencies and person specification for Independent Person
(attached at Appendix A)

Audit Committee

Role Description for Independent Person

Independent Person of Audit Committee – Role Description

1. To engage fully in collective consideration of the issues before the Audit Committee, taking into account a full range of relevant factors, including legislation and supporting regulation (e.g. the Accounts & Audit Regulations 2011), professional guidance (e.g. that issued by the Chartered Institute of Public Finance and Accountancy (CIPFA)), and the advice of the Council's Section 151 Officer.
2. To participate fully in the discharge of all Audit Committee functions, as set out in the Audit Committee's terms of reference and the constitution
3. To promote the concept of proportionate, effective risk management and internal control throughout the organisation; and to champion the work of Internal Audit, External Audit and Risk Management.
4. To participate in periodic review of the overall effectiveness of the Audit Committee, and of its terms of reference.
5. To ensure that the minutes of Audit Committee meetings accurately record decisions taken.

Independent Person of Audit Committee – Skills and Competencies

Indicators:

1. Demonstrates up to date knowledge, skill and a depth of experience in the fields of audit, accounting, risk management and performance management.
2. Operates consistently and without bias.
3. Is an effective role model; supports appropriate behaviours and challenges opinions and advice where appropriate, separating major issues from minor ones.
4. Contributes proactive, proportionate and independent thought, and also collaboration with officers to temper the opinions of Committee members.
5. Works sensitively with people inside and outside committee.
6. Listens to and balances advice.

**Audit Committee
Person Specification for Independent Person**

Experience	Knowledge / experience in matters of an audit nature.	Essential
	Knowledge / experience of risk management, performance management and financial governance.	Essential
	Working to high behavioural standards, demonstrating honesty, probity and the highest level of integrity in conduct.	Essential
	Experience gained working in a large, or public sector, organisation.	Desirable
	Serving on a committee.	Desirable
Skills	Ability to weigh / sort complex evidence and reach rational conclusions, incorporating appropriate advice.	Essential
	Ability to be objective, independent and impartial.	Essential
	Ability to work in a group.	Essential
	Ability to make reasoned decisions.	Essential
	Strong strategic awareness and ability to identify emerging external factors that may impact on strategy, implementation of plans, or reputation with key stakeholders.	Essential
	A good communicator with excellent interpersonal skills, able to both empower and challenge supportively.	Essential
	Knowledge of the locality of South Somerset, and knowledge of its communities.	Desirable
Knowledge	Knowledge of the Council's strategic priorities and objectives, as set out in the Council Plan.	Desirable
	Understanding of the complexity of issues surrounding audit and risk management in local government.	Desirable
	Understanding of committee procedures.	Desirable
	Live or work in South Somerset or its surrounding areas.	Essential
Other	Must not be a serving local government officer or councillor.	Essential
	Must have no personal, legal or contractual relationship with South Somerset District Council (including employees or members or former staff), or any other relationship / activity which might represent a conflict of interest.	Essential
	Able and willing to devote the necessary time to the role.	Essential

Agenda Item 11

Membership of Committees – Appointment of New Councillor to Audit Committee

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

1. Purpose of the Report

To confirm an amendment to the Audit Committee membership following the appointment of Councillors to various committees and working groups at Council on 21st May 2019 and 20th June 2019.

2. Public Interest

Each year at their annual meeting, Council agree to appoint Councillors to the various committees and to represent SSDC on outside organisations. This report confirms the wishes of the Conservative group to make an amendment to the Councillors appointed to the Audit, Committee.

3. Recommendation

In accordance with Section 16 (1) Local Government and Housing Act 1989 and the duty therein to give effect to the wishes of the political group to which seats on any committee are allocated, the Council confirm that:-

- a) Councillor Robin Bastable be appointed to the Audit Committee

4. Report

The membership of committees and working groups for 2019/20 was approved at the Annual Council meeting on 21st May. At the Council meeting on 20th June, Councillor Robin Bastable was appointed to represent SSDC on the South West Audit Partnership and the Conservative group indicated that Councillor Robin Bastable would replace Councillor William Wallace on the Audit Committee. This report seeks to confirm that request.

5. Background Papers

Minutes of Council – 21st May 2019 and 20th June 2019

Agenda Item 12

Report of Executive Decisions

Executive Portfolio Holder: Val Keitch, Leader of Council, Strategy and Policy
Director: Netta Meadows, Director (Strategy & Support Services)
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 June 2019. 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

Portfolio	Subject	Decision	Taken By	Date
Environment	Allowenshay Private Water Supply	<p>That District Executive agreed to defer the decision for a one-off capital grant of £26,100 towards the infrastructure cost of providing mains water to Allowenshay village for further information on:</p> <ul style="list-style-type: none"> a. clarification of whether the Wessex Home Improvement Loan scheme could be utilised; b. an assessment on the number of private water supplies across the district and of the potential cost implications were some or all of them to make a request for funding. 	District Executive	04/07/19
Finance, Legal and Democratic Services	Revenue Budget Outturn Report for 2018/19	<p>That District Executive agreed to:-</p> <ul style="list-style-type: none"> a. note the net spending for the year of £16,347,586, an underspend of £259,564 (1.6%) compared to final budget, and explanations of variances from budget holders for the 2018/19 financial year as shown in paragraphs 7-10; b. approve budget carry forwards of £170,282 into the 2018/19 budgets (as shown in Appendix B); c. approve the transfer of £500,000 to the Regeneration Fund from Business Rates Retention funding (as detailed in paragraph 26); d. approve the allocation of £350,000 to a new Climate Change and Environment Initiatives Fund, and support the commitment of £40,000 from this Fund towards supporting strategy development for the District and County (as detailed in paragraph 27); e. approve the transfer of £378,857 to the Transformation Reserve to fund transitional resources whilst changes are fully implemented; f. approve individual service overspends are funded from general balances and the net underspend of £89,282 after carry forwards is returned to general balances; g. note the use of the specific reserves in paragraph 33 and the transfers to and from balances outlined in the General Fund table paragraph 34; h. note the position of the Area Committee balances in paragraph 39. 	District Executive	04/07/19

Portfolio	Subject	Decision	Taken By	Date
Finance, Legal and Democratic Services	Capital Budget Outturn Report for 2018/19	That District Executive agreed to:- a. note the content of the report including the total spend of £26.478m on capital schemes during 2018/19; and small variance of only £4k overspend across 41 completed schemes. b. approve the revised Capital Programme spend as detailed in paragraph 10.	District Executive	04/07/19
Protecting Core Services including Transformation	SSDC Transformation Programme - Progress report	That District Executive agreed to:- a. note the Transformation Programme report and progress to date; b. approve once off additional resources of £494,990 in 2019/20 and £240,230 in 2020/21, to support service delivery to customers during the extended transition period from old to new ways of working, to be funded from the additional business rate retention funds, reserves, income targets and next year's Budget as set out in the Financial Implications section of the report.	District Executive	04/07/19
Strategy and Housing	Notification of an Urgent Executive Decision - Purchase of a property in South Somerset to meet Housing Need	That District Executive agreed to note the urgent decision taken by the Chief Executive, in consultation with the Leader, to use £67,620 from the Affordable Housing Capital Programme Reserve for the purchase of the remaining leasehold interest (27.6%) of a 3 bedroom adapted bungalow in Yeovil, to enable the Council to provide accommodation to people with complex needs where they are unable to access suitable accommodation from existing housing stock.	Chief Executive in consultation with the Leader of Council	April 2019

Agenda Item 15

Date of Next Meeting

Members are asked to note that the next scheduled meeting of the Full Council is a reserve date of 15th August 2019.

Unless there is any urgent business to progress on this date, the next scheduled meeting of the Full Council will take place on **Thursday, 19th September 2019** in the Council Chamber, Council Offices, Brympton Way, Yeovil **commencing at 7.30 p.m.**
