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COMMITTEE:	**JOINT AUDIT AND STANDARDS COMMITTEE**
VENUE:	**Council Chamber, Corks Lane, Hadleigh**
DATE/TIME:	**Monday, 23 January 2017 at 10.00 a.m.**

Members

Babergh		**Mid Suffolk**	
Michael Creffield	William Shropshire	John Field	Suzie Morley
Frank Lawrenson	Fenella Swan	Lavinia Hadingham	Dave Muller
Alastair McCraw	Stephen Williams	John Matthissen	Kevin Welsby
David Rose	(1 vacancy)	Lesley Mayes	Jill Wilshaw

PLEASE NOTE TIME AND VENUE OF MEETING

A G E N D A

ITEM	BUSINESS

The Council, members of the public and the press may record/film/photograph or broadcast this meeting when the public and the press are not lawfully excluded.

Any member of the public who attends a meeting and objects to being filmed should advise the Committee Clerk.

PART I

1 SUBSTITUTES AND APOLOGIES

Any Member attending as an approved substitute to report giving his/her name and the name of the Member being substituted.

2 DECLARATION OF INTERESTS

Members to declare any interests as appropriate in respect of items to be considered at this meeting.

3 MINUTES

To confirm and sign the Minutes of the meeting held on 14 November 2016 (attached).

4 PETITIONS

The Corporate Manager – Democratic Services to report, in accordance with Council's Rules of Procedure, the receipt of any petitions submitted to the Chief Executive.

ITEM		BUSINESS
	5	QUESTIONS BY THE PUBLIC
		To consider questions from, and provide answers to, the public in relation to matters which are relevant to the business of the meeting and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.
	6	QUESTIONS BY COUNCILLORS
		To consider questions from, and provide answer to, Councillors on any matter in relation to which the Committee has powers or duties and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.
	7	JOINT TREASURY MANAGEMENT STRATEGY 2017/18
Paper JAC93		Report by the Assistant Director – Corporate Resources attached.
	8	JOINT OPERATIONAL SYSTEMS, INTEGRATED AND EXCELLENT (JOSIE)
Paper JAC94		Report by the Assistant Director – Planning for Growth attached.
	9	FORWARD PLAN 2016/17
Paper JAC95		Report by the Corporate Manager – Democratic Services attached.

Note: The date of the next meeting is Monday 13 March 2017 (at Needham).

For further information on any of the Part 1 items listed above, please contact Linda Sheppard on (01473) 826610 or via email at committees@baberghmidsuffolk.gov.uk

BABERGH DISTRICT COUNCIL/
MID SUFFOLK DISTRICT COUNCIL

JOINT AUDIT AND
STANDARDS COMMITTEE

MINUTES OF THE JOINT AUDIT AND STANDARDS COMMITTEE MEETING HELD IN THE COUNCIL CHAMBER, COUNCIL OFFICES, HIGH STREET, NEEDHAM MARKET ON MONDAY 14 NOVEMBER 2016

PRESENT:

BABERGH	MID SUFFOLK
Michael Creffield	John Field
Alastair McCraw	Lavinia Hadingham
David Rose	John Matthissen
William Shropshire	Lesley Mayes
Fenella Swan	Suzie Morley (Chairman)
John Ward	Dave Muller
	Kevin Welsby

Councillors Stephen Williams and Jill Wilshaw were unable to be present.

25 DECLARATION OF INTERESTS

There were no declarations of interest.

26 MINUTES

RESOLVED

That the Minutes of the meeting held on 12 September 2016 be confirmed and signed as a correct record.

27 PETITIONS

None received.

28 QUESTIONS FROM THE PUBLIC

None received

29 QUESTIONS FROM MEMBERS

None received.

30 MID YEAR REPORT ON TREASURY MANAGEMENT 2016/17

Melissa Evans, Corporate Manager – Financial Services introduced Paper JAC90 which provided Members with a mid-year report on treasury management activities. In response to questions from Members, the Corporate Manager – Financial Services advised that the following information would be made available outside the meeting:

- Further information regarding Funding Circle Investments, when they were made and with which companies.
- Whether PWLB debts held by both Councils could be restructured in order to take advantage of lower interest rates
- Transaction and management costs associated with the DMADF
- CCLA management expenses – request to see net income as it reflects associated costs

Members also requested further information to be added to future reports including a comparison to other years of the BDC UBS Multi Asset Fund performance. The Corporate Manager – Financial Services advised this request would be taken on board.

RECOMMENDED TO BOTH COUNCILS

That it be noted that Treasury Management activity for the first six months of 2016/17 was in accordance with the approved Treasury Management Strategy, and that both Councils have complied with all Prudential Indicators for this period.

31 INTERIM INTERNAL AUDIT REPORT 2016/17

John Snell, Corporate Manager – Internal Audit and Paul Jarvis, Internal Audit and Risk Management Officer introduced Paper JAC91 informing Councillors of the work undertaken within Internal Audit for the first part of 2016/17 and providing a review of the variety and scope of projects and corporate activities which are supported through the work of the team.

Members raised concerns regarding two 'ineffective' audit opinions raised by the report, which related to Procurement – contract management, and the JOSIE project. As a result of the debate and their consideration, the Committee accepted the recommendation in the report, and requested further information regarding the JOSIE Project.

RESOLVED

(1) That the contents of Paper JAC91 be noted.

(2) That the concerns raised by the Committee regarding the two items identified as ineffective in Appendix A to Paper JAC91 (Annex A) be noted.

(3) That the Assistant Director responsible for the JOSIE Project be asked to provide a report to the next meeting of the Joint Committee giving further information in relation to the Project as referred to in Annex A.

32 FORWARD PLAN 2016/17

Members noted that the further report referred to in Resolution (3) of Minute 31 above will be included on the agenda for the next meeting of the Committee.

That the content of Paper JAC92 be noted.

The business of the meeting was concluded at 11.10 a.m.

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Chairman

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From:	**Head of Corporate Resources**	**Report Number:**	**JAC93**
To:	**Joint Audit and Standards Committee**	**Date of meeting:**	**23 January 2017**

JOINT TREASURY MANAGEMENT STRATEGY 2017/18

1. Purpose of Report

1.1 This report presents the proposed Treasury Management Strategy Statement (which includes the Annual Investment Strategy for managing surplus funds and borrowing strategy). These are in accordance with the CIPFA Treasury Management Code. The Prudential Indicators and Minimum Revenue Provision (MRP) Statement are linked to the Budget report that will be presented to Executive/Strategy Committee and Council meetings in February 2017.

1.2 The Code of Practice recommends that the strategy is subject to scrutiny before it is presented to Council, which falls within the remit of the Joint Audit and Standards Committee.

2. Recommendations

2.1 That the key factors and information relating to and affecting treasury management activities set out in Appendix A and B be noted.

2.2 That the following be approved:

(a) The Treasury Management Policy Statement set out in Appendix C

(b) The Treasury Management Strategy for 2017/18, including the Annual Investment Strategy as set out in Appendix D

(c) The Prudential Indicators and Minimum Revenue Provision Statement set out in Appendix G and H.

The Committee is asked to make recommendations to Executive and Strategy Committees and both Full Council on the above matters.

3. Financial Implications

3.1 As outlined in this report.

4. Legal Implications

4.1 Section 15 of the Local Government Act 2003 obliges the Councils to approve a Treasury Management Strategy.

5. Risk Management

5.1 This report is not directly linked with any of the Councils Significant Risks, but it should be noted that changes in funding requirements, interest rates, and other external factors can impact on the medium term financial strategy and future budgets (Risk 5f – failure of the Councils to become financially sustainable in response to funding changes). Key risks around treasury management, however, are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Loss of investment and/or liquidity problems	Unlikely (2)	Bad (3)	Strict lending criteria for highly credit rated institutions.
Poor return on investments	Probable (3)	Noticeable (2)	Focus is on security and liquidity. Careful cash flow management and budget monitoring in accordance with the strategy, is undertaken.
Higher than expected borrowing costs – interest rate increases and/or lower capital receipts than forecast	Probable (3)	Noticeable (2)	Benchmark is to borrow from the Public Works Loan Board (PWLB) whose rates are very low and can be on a fixed or variable basis or from other local authorities. Continue to use internal surplus funds temporarily. Capital receipts monitored.

6. Consultations

6.1 Regular meetings have taken place with our Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

7. Equality Analysis

7.1 There are no equality and diversity implications, as the contents and recommendations of this report do not impact on those with protected characteristics.

8. Shared Service / Partnership Implications

8.1 This is a joint report for both Councils on the proposed Treasury Management Strategy for 2017/18, although its application will differ due to the different financial position of each Council.

9. Links to Joint Strategic Plan

9.1 Ensuring that the Council has the resources available is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

10. Key Information

10.1 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 their Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis before the start of each financial year. The TMSS also includes the Annual Investment Strategy (AIS).

10.2 The CIPFA Treasury Management and Prudential Codes have been adopted by both Councils. There is also a Treasury Management Policy Statement, which underpins the TMSS.

10.3 Babergh and Mid Suffolk invest surplus funds and both Councils borrow to fund capital investment and manage cash flows. Both Councils are therefore exposed to financial risks including the loss of invested funds and the revenue effect of interest rate changes.

10.4 The identification, monitoring and control of risk are central to the treasury management strategy.

10.5 In addition, treasury activities need to comply with relevant statutes, guidance and accounting standards.

Borrowing and Investments

10.6 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with usable reserves, is one of the core drivers of both Councils Treasury Management activities.

10.7 Councils are able to borrow funds up to their CFR to finance capital expenditure. The Councils will not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. These needs are determined by the CFR. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Councils can ensure the security of such funds.

10.8 The forecast movement in the CFR in coming years is one of the Prudential Indicators. The movement in actual external debt and usable reserves combine to identify the Council's borrowing requirement and potential investment strategy in the current and future years.

10.9 As indicated in the tables in Appendix D, section 1.4, Babergh has a maximum borrowing requirement of around £35.9m for 2017/18 rising to £54.4m by 2019/20 to fund the indicative capital programme. Mid Suffolk has a maximum borrowing requirement of around £53.2m for 2017/18 rising to £71.4m by 2019/20 to fund the indicative capital programme

10.10 The current level of debt and investments for Babergh and Mid Suffolk is set out in Appendix A.

The 2017/18 Strategy

10.11 The Prudential Indicators (to be presented with the Budget and Capital programme to Executive/Strategy Committee in February 2017) illustrate the affordability and impact of capital expenditure decisions and set out both Councils overall capital and treasury framework.

10.12 Effective management and decisions on funding ensure both Councils comply with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget. More importantly, using our borrowing powers to undertake investment in strategic plan priority outcomes and generate a rate of return to produce additional income is a key part of our MTFS in order to deal with the potential funding gaps that both councils may face over the next 4 years.

10.13 Key documents relating to treasury management operations in terms of the annual investment and borrowing strategy proposed for 2017/18 are set out in the supporting appendices. Factors affecting the strategy are detailed in the Economic Outlook (Appendix B), the Policy Statement (Appendix C) and the Treasury Management Strategy for the year (Appendix D).

10.14 The proposed investment strategy for 2017/18 continues to focus primarily on the effective management and control of risk, giving priority to security and liquidity when investing funds. Investment returns remain an important but secondary consideration.

10.15 The minimum proposed investment criteria for UK counterparties in the 2017/18 Strategy remains at A-. (Note: This would be the lowest credit rating determined by credit rating agencies Moodys, Fitch and Standard & Poors).

10.16 In line with advice received from Arlingclose (the Councils treasury advisors) the maximum investment limit per institution is £2m for unsecured specified investments for Babergh District Council and £1m for Mid Suffolk District Council. This reflects the higher balances for investment held by Babergh compared with Mid Suffolk. The limit for pooled funds is £5m. Investments with the UK Government (including the Government's Debt Management Agency Deposit Facility (DMADF) and Treasury Bills (T-Bills)), have no limit on the amount invested.

10.17 A list of the banks and building societies that both Councils can lend to (based on information on credit risk and credit ratings as at December 2016) is provided in Appendix F. This will be continuously monitored as the position changes throughout the year as credit ratings are reviewed and additional market information is evaluated.

10.18 The Councils will continue to:

- Make use of call accounts, if necessary
- Use the strongest/lowest risk non-credit rated building societies
- Use covered bonds (secured against assets) for longer term investments
- Consider longer term investments in property or other funds.

10.19 The period for which a 'specified' investment is made will continue to be a key aspect of the investment strategy. The criterion for this is set out in Appendix D. The maximum period of any investment will be on the advice of Arlingclose. Investments in excess of 364 days are classified as 'non-specified' investments and will only be undertaken with the prior approval of the S151 Officer.

10.20 In terms of borrowing, consideration will be given to all forms of borrowing/financing in relation to any future capital investment plans. This is most likely to be via the Public Works Loan Board (PWLB) but consideration will also be given to borrowing from other sources such as other local authorities, commercial banks, the European Investment Bank (EIB), money markets, capital markets (stock issues, commercial paper and bills) and leasing.

10.21 In conjunction with advice from Arlingclose, both Councils will keep these sources of finance under review.

10.22 After using surplus internal funds temporarily, the PWLB remains the most likely source of new external long term borrowing whilst short or longer term borrowing would be from money market institutions and other local authorities. The Councils will receive the "certainty rate" discount of 0.2% on PWLB loans.

10.23 Officers will take advice on the optimum time to undertake additional borrowing and will adopt a flexible approach in consultation with their treasury advisors, after consideration of the following:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risks
- Borrowing source.

As clearly highlighted by the Prudential Indicators, the level and ratio of General Fund borrowing costs will increase over the next few years to finance the potential capital programme. Affordability in terms of future revenue budgets will be reviewed as part of the ongoing budget monitoring process against the Medium Term Financial Strategy.

10.24 The revenue cost of borrowing in 2017/18 and subsequent years in relation to the capital programme will be minimised by borrowing on the most beneficial basis at the most appropriate time of the year, based on advice from our treasury advisors, Arlingclose.

10.25 The General Fund revenue budget for 2017/18 will include provision for interest payments relating to external borrowing and the statutory Minimum Revenue Provision (MRP) to ensure the principal is repaid. Different arrangements apply to the Housing Revenue Account (Council Housing) – there is no MRP.

10.26 The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the year.

10.27 In accordance with the Department for Communities and Local Government (CLG) Guidance, the Councils 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, or in the Councils capital programmes or in the level of investment balances.

11. Appendices

Title	Location
A Existing Investment and Debt Portfolio Position	Attached
B Economic Outlook and Interest Rate Forecast	Attached
C Treasury Management Policy Statement	Attached
D Treasury Management Strategy 2017/18	Attached
E Treasury Management Indicators	Attached
F Institutions meeting high credit ratings criteria (as at end of December 2016)	Attached
G Prudential Indicators	Attached
H MRP Statement	Attached
I Glossary of Terms	Attached

12. Background Documents

12.1 CIPFA Treasury Management in the Public Services – 2011

12.2 The Prudential Code for Capital Finance in Local Authorities – 2011

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EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

	31/12/2016 Actual Portfolio £m	
	Babergh District Council	**Mid Suffolk District Council**
External Borrowing:		
Fixed Rate – PWLB	87.1	71.5
Fixed Rate – Market	0.00	10.0
Total External Borrowing	**87.1**	**81.5**
Total Gross External Debt (see note below)	**87.1**	**81.5**
Investments: *Managed in-house*		
- Short-term monies (Deposits/monies on call /MMFs)	9.3	4.5
- Short-term investments (including CCLA, Funding Circle & UBS)	7.6	5.6
Total Investments	**16.9**	**10.1**

Note

The £87.1m and £81.5m relate entirely to the HRA - future borrowing is allocated specifically to the HRA or the General Fund based on the respective capital programmes.

ECONOMIC OUTLOOK AND INTEREST RATE FORECAST

1 Economic background

1.1 The major external influence on the Councils Treasury Management Strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the European Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers the exit in early 2017 and is expected to last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

1.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

1.3 Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

1.4 Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

1.5 The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution in December 2016, the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

2 Credit outlook

2.1 Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

2.2 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Councils; returns from cash deposits however continue to fall.

3 Interest rate forecast

3.1 The Councils treasury advisor Arlingclose are forecasting the UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive, although a low probability it cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

3.2 Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low. A detailed economic and interest rate forecast is shown in the table below.

ECONOMIC AND INTEREST RATE FORECAST EX ARLINGCLOSE (DEC 2016)

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Average
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	0.13
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside Risk	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.42

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Average
3-month LIBID rate														
Upside Risk	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Arlingclose Central Case	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside Risk	-0.25	-0.25	-0.25	-0.30	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.36

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Average
1-yr LIBID rate														
Upside Risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.24
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.95**	**0.68**
Downside Risk	-0.15	-0.15	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.26

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Average
5-yr gilt yield														
Upside Risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**0.50**	**0.45**	**0.45**	**0.45**	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.65**	**0.70**	**0.75**	**0.80**	**0.57**
Downside Risk	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.48

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Average
10-yr gilt yield														
Upside Risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**0.95**	**0.90**	**0.90**	**0.90**	**0.95**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**1.20**	**1.25**	**1.02**
Downside Risk	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.48

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Average
20-yr gilt yield														
Upside Risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**1.50**	**1.45**	**1.45**	**1.45**	**1.50**	**1.50**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**	**1.80**	**1.57**
Downside Risk	-0.55	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.58

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Average
50-yr gilt yield														
Upside Risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**1.40**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.47**
Downside Risk	-0.55	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.58

TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction and Background

1.1 The two Councils adopt the key recommendations of the CIPFA Code of Practice on Treasury Management in the Public Services 2011 Edition (the Code) as described in Section 5 of the Code.

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

1.3 Accordingly, the Councils will create and maintain the following as the cornerstones for effective treasury management:

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

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

1.4 The full Councils for Babergh and Mid Suffolk will receive recommendations from Strategy/Executive Committee on their treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

1.5 The Councils delegate responsibility for the implementation of its treasury management policies and practices to the Strategy/Executive Committee, monitoring to the Joint Audit and Standards Committee and the execution and administration of treasury management decisions to the Section 151 Officer and/or Corporate Manager - Financial Services, who will act in accordance with the organisations' policy statements, the TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.6 The Joint Audit and Standards Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. Policies and Objectives of Treasury Management Activities

2.1 The Councils define their treasury management activities in line with the CIPFA definition as: "the management of the organisation's investments and cash flows, it's banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance associated with those risks."

2.2 The Councils regard the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Councils.

2.3 The Councils recognise that effective treasury management will provide support towards the achievement of their business and service objectives. They are therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques within the context of effective risk management.

2.4 Both Councils borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Councils transparency and control over their debt.

2.5 Both Councils primary objectives in relation to investments remain the security of capital. The liquidity or accessibility of the Councils investments followed by the yield earned on investments remain important but are secondary considerations.

TREASURY MANAGEMENT STRATEGY 2017/18

1. Background

1.1 Treasury Management is strictly regulated by statutory requirements. The Local Government Act 2003 and supporting regulations requires each Council to have regard to the Prudential Code and set Prudential Indicators for the next three years to ensure that both Councils capital investment plans are affordable, prudent and sustainable. The Act also requires each Council to set out annually their treasury strategy for borrowing and investment.

1.2 Effective management and decisions on funding ensure the Councils comply with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

1.3 The Councils will reappraise their strategies from time to time in response to evolving economic, political and financial events.

1.4 The tables below show how the movement in actual external debt and usable reserves combine to identify the Councils borrowing requirement and potential investment strategy in the current and future years. 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.

Babergh District Council	**Forecast 2016/17 £m**	**Estimate 2017/18 £m**	**Estimate 2018/19 £m**	**Estimate 2019/20 £m**
General Fund **Housing Revenue Account**	20.9 86.3	36.9 85.8	52.5 85.3	55.5 84.7
TOTAL CFR	**107.2**	**122.7**	**137.8**	**140.2**
Less: Existing Profile of Borrowing*	**(87.3)**	(86.8)	(86.3)	(85.8)
Cumulative Maximum External Borrowing Requirement	**19.9**	**35.9**	**51.5**	**54.4**
Less: Balances & Reserves General Fund Housing Revenue Account	 (4.9) (17.3)	 (4.9) (18.4)	 (4.9) (18.1)	 (4.9) (18.4)
Less: Working Capital – net assets	(9.2)	(9.2)	(9.2)	(9.2)
Cumulative Net Borrowing Requirement / (Investments)	**(11.5)**	**3.4**	**19.3**	**21.9**

*Shows only loans to which the Councils are committed and excludes optional refinancing.

Mid Suffolk District Council	Forecast 2016/17 £m	Estimate 2017/18 £m	Estimate 2018/19 £m	Estimate 2019/20 £m
General Fund **Housing Revenue Account**	24.1 86.8	40.5 86.8	55.9 86.8	58.1 86.8
TOTAL CFR	**110.9**	**127.3**	**142.7**	**144.9**
Less: Existing Profile of Borrowing*	**(74.9)**	(74.1)	(73.8)	(73.5)
Cumulative Maximum External Borrowing Requirement	**36.0**	**53.2**	**68.9**	**71.4**
Less: Balances & Reserves General Fund Housing Revenue Account	 (11.3) (9.8)	 (14.5) (10.8)	 (14.5) (11.0)	 (14.5) (11.7)
Add: Working Capital – net liabilities	8.1	8.1	8.1	8.1
Cumulative Net Borrowing Requirement/(Investments)	**23.0**	**36.0**	**51.5**	**53.3**

*Shows only loans to which the Councils are committed and excludes optional refinancing.

2. Borrowing Strategy

2.1 **Objectives:** The chief objective for both Councils when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Councils long-term plans change is a secondary objective.

2.2 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the borrowing strategy of the Councils continue 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. This position will be monitored and evaluated on an ongoing basis to ensure the Councils achieve value for money.

2.3 By doing this, the Councils are able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Councils with this ‘cost of carry’ (the excess of interest payable on monies borrowed over interest received when the monies are invested) and breakeven analysis. Its output may determine whether the Councils borrow additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

2.4 Alternatively, the Councils may arrange forward starting loans during 2017/18, 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.

2.5 In addition the councils may borrow short term loans to cover unexpected cash flow shortages.

Sources of Borrowing and Portfolio Implications

2.6 In conjunction with advice from treasury management advisors, the Councils will keep under review the following long-term and short-term borrowing sources:

- Public Works Loan Board (PWLB) and any successor body
- Any institutions approved for investments (see section 6.5 below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Suffolk 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

2.7 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

2.8 The Councils have previously raised the majority of their long term borrowing from the PWLB but they continue to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

2.9 **Municipal Bond 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 Councils will be required to provide bond investors with a joint and several guarantees to refund their investment in the event that the agency is unable to for any reason;
- 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.

2.10 **LOBOs:** Mid Suffolk holds £4m of LOBO (Lender's Option Borrower's Option), loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. There are no plans to use LOBO loans for future borrowing.

2.11 **Short-term and Variable Rate loans:** These loans leave the Councils 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 as shown in Appendix E paragraph 2.1.

3. Debt Rescheduling

3.1 The PWLB allows Councils 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 Councils 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.

3.2 Borrowing and any rescheduling activity will be reported to the Joint Audit & Standards Committee as part of the mid-year and annual treasury management reports.

4. Policy on Use of Financial Derivatives

4.1 Some 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).

4.2 The Councils will only use standalone financial derivatives (such as swaps, forwards, futures and options) where these can be clearly demonstrated to reduce the overall level of the financial risks that the Councils are 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.

4.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria (See Appendix D, Section 6.5. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

4.4 The Councils will only use derivatives after seeking advice from their treasury advisors, a legal opinion and ensuring officers have the appropriate training for their use.

5. Policy on Apportioning Interest to the HRA

5.1 On 1st April 2012, the Councils notionally split each of their existing loans into General Fund and HRA pools. In the future, new long term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs / income arising from long term loans (e.g. premiums and discounts on early redemption) will be charged / credited to the respective revenue account.

5.2 Differences between the value of the HRA loans pools and the HRAs' underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the net average rate earned by the Councils on the relevant portfolios of treasury investments and short-term borrowing.

6. Annual Investment Strategy

6.1 The Councils hold significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months Babergh's investment balances have ranged between £11.2m and £27m and those of Mid Suffolk between £5.8m and £16.9m

6.2 **Objectives:** In accordance with Investment Guidance issued by CLG and the CIPFA Code, the Councils are required to invest their funds prudently and to have regard to the security and liquidity of their investments before seeking the highest rate of return or yield. The Councils objectives 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, both Councils 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.

6.3 **Negative Interest Rates:** If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4 **Strategy:** Given the increasing risk and falling returns from short-term unsecured bank investments, both Councils aim to further diversify into more secure and/or higher yielding asset classes during 2017/18. The majority of the Councils surplus cash is currently invested in short-term unsecured bank deposits, money market funds and UBS. Surplus cash is also invested in funds managed by CCLA and Funding Circle. This diversification will therefore represent a continuation of the new strategy adopted in 2015/16.

6.5 **Approved Counterparties:** The Councils may invest their surplus funds with any of the counterparty types in the list below, subject to the cash limits (per counterparty) and the time limits shown. The higher cash limits for Babergh reflect the fact that the Council has higher balances available for investment than Mid Suffolk. The differing cash limits result in a similar spread of risk across the different counterparty types.

Approved Investment Counterparties and Limits:

Babergh District Council

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£2m 20 years	£2m 50 years	£1m 20 years	£1m 20 years
AA+	£2m 5 years	£2m 10 years	£2m 25 years	£1m 10 years	£1m 10 years
AA	£2 m 4 years	£2m 5 years	£2m 15 years	£1m 5 years	£1m 10 years
AA-	£2m 3 years	£2m 4 years	£2m 10 years	£1m 4 years	£1m 10 years
A+	£2m 2 years	£2m 3 years	£2m 5 years	£1m 3 years	£1m 5 years
A	£2 m 13 months	£2m 2 years	£2m 5 years	£1 m 2 years	£1m 5 years
A-	£2m 6 months	£2m 13 months	£2m 5 years	£1m 13 months	£1m 5 years
None	£1m 6 months	n/a	£1m 25 years	£50,000 5 years	£1m 5 years
Pooled funds	£5m per fund				

Mid Suffolk District Council

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£1m 5 years	£1m 20 years	£2m 50 years	£1m 20 years	£1m 20 years
AA+	£1m 5 years	£1m 10 years	£2m 25 years	£1m 10 years	£1m 10 years
AA	£1 m 4 years	£1m 5 years	£2m 15 years	£1m 5 years	£1m 10 years
AA-	£1m 3 years	£1m 4 years	£2m 10 years	£1m 4 years	£1m 10 years
A+	£1m 2 years	£1m 3 years	£1m 5 years	£1m 3 years	£1m 5 years
A	£1 m 13 months	£1m 2 years	£1m 5 years	£1 m 2 years	£1m 5 years
A-	£1m 6 months	£1 m 13 months	£1m 5 years	£1m 13 months	£1m 5 years
None	£1m 6 months	n/a	£1m 25 years	£50,000 5 years	£1m 5 years
Pooled funds	£5m per fund				

These tables must be read in conjunction with the notes below:

Banks/Building Societies 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.

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 highest 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 becoming insolvent. Loans to unrated companies will only be made 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 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 Councils 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 both Councils investment objectives will be monitored regularly.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by both Councils treasury advisors, 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.

See the table in Appendix F for an explanation of the credit ratings issued by the main credit ratings agencies.

Other Information on the Security of Investments: The Councils understand 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 Councils will restrict their 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 Councils cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office (DMADF) or invested in government treasury bills (T-Bills) for example, or with other local authorities. This will result in lower levels of investment income being earned, but will protect the principal sum invested.

6.6 **Specified and Non-Specified Investments:** Investments are categorised as "Specified" or Non-Specified" within the investment guidance issued by the CLG:

- **Specified investments:**
  - are sterling denominated investments
  - have a maximum maturity of 364 days
  - meet the definition of "high credit quality" as determined by the Councils (currently A- or A3 for UK banks, building societies, money market funds and other pooled funds; and AA- for foreign banks (AAA sovereign rating only))
  - are not deemed capital expenditure investments under Statute.
  - may also be with the UK Government, a UK local authority, parish council or community council.
- **Non-Specified investments:** are, effectively, everything else.
  - The Councils may make investments in unrated building societies but do not intend to make any investments:
    - denominated in foreign currencies,
    - any that are defined as capital expenditure by legislation, such as company shares, nor
    - with bodies and schemes not meeting the definition of high credit quality.
  - Non-specified investments will therefore be limited to long-term investments (those due to mature 12 months or longer from the date of arrangement) which are considered less liquid as the cash is not quickly realisable and to investments in unrated building societies.

Non-Specified Investment Limits

	Cash limit
Total long-term investments	£2m
Total investments without credit ratings	£10m
Total investments rated below A- (Lloyds Bank only see paragraph 7.2)	£1m
Total non-specified investments	£13m

6.7 Investments of 12 months or over (longer than 364 days) are subject to the prior approval of the S151 officer.

6.8 Any institution can be suspended or removed from the list should any of the factors identified above give rise to concern. The institutions that currently meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are shown in Appendix F.

6.9 It remains the Councils policies to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. Therefore an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

7. The Councils Banker

7.1 Both Councils bank with Lloyds Bank plc which currently has a credit rating of A+.

7.2 Should the credit rating fall below A-, the Councils may continue to deposit surplus cash with Lloyds Bank plc providing that investments can be withdrawn on the next working day.

8. Investment Limits

8.1 The Councils revenue reserves available to cover investment losses are forecast to be £13.7 million for Babergh and £16.8 million for Mid Suffolk on 31st March 2017. In order to minimise the available reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £1 million for Mid Suffolk and £2 million for Babergh and £5 million for pooled funds. 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:

8.2 **Investment Limits**

	Cash limit	
	Babergh	**Mid Suffolk**
Any single organisation, except the UK Central Government	£2m each	£1m each
Unsecured investments with Building Societies	£2m in total	£2m in total
Loans to unrated corporates	£1m in total	£1m in total
UK Central Government	Unlimited	Unlimited
Any group of organisations under the same ownership	£1m per group	£1m per group
Any group of pooled funds under the same management	£5m per manager	£5m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker	£10m per broker
Foreign countries	£2m per country	£2m per country
Registered Providers	£5m in total	£5m in total
Money Market Funds	50% of total investments	50% of total investments

9. Liquidity Management

9.1 The Councils use cash flow forecasts to determine the maximum period for which funds may prudently be committed. The forecasts are compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Councils being forced to borrow on unfavourable terms to meet their financial commitments. Limits on long-term investments are set by reference to the Councils medium term financial plans and cash flow forecasts.

10. Investment Training

10.1 The needs of the Councils treasury management staff for training in investment management are assessed regularly and as part of the staff appraisal process and when the responsibilities of individual members of staff change.

10.2 Staff attend regular training courses, seminars and conferences provided by Arlingclose, CIPFA and other relevant bodies.

11. Investment Advisors

11.1 The Councils treasury management advisors are Arlingclose Ltd. The joint contract with Babergh and Mid Suffolk commenced on 1 June 2010 for 2 years, and has taken up the option to extend.

11.2 The advisors provide the following services:

- Investment advice
- Technical support
- Counterparty creditworthiness (credit ratings)
- Debt management advice
- Economic updates
- Interest rate forecasts

11.3 The treasury advisor service is subject to regular review to ensure compliance with the requirements of the Treasury Management Strategy and TMPs' Use of External Service Providers.

11.4 The Councils maintain the quality of the service with their advisors by holding quarterly meetings. Whilst the advisors provide support to the treasury function, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Councils.

11.5 The Councils have regard to the requirements of the Bribery Act 2011 in their dealings with external advisors.

12 Investment of Money Borrowed in Advance of Need

12.1 The Councils 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 Councils are aware that they 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 Councils overall management of its treasury risks.

12.2 The total amount borrowed in 2017/18 will not exceed the authorised borrowing limit (£126 million for Babergh and £130 million for Mid Suffolk). See Appendix G paragraph 7.4.

13 Other Options Considered

13.1 The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The S151 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 lower rated counterparties 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
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

TREASURY MANAGEMENT INDICATORS

The Councils measure and manage their exposures to treasury management risks using the following indicators.

1 Security

1.1 The Councils have adopted a voluntary measure of their exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolios. 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.

	Target
Portfolio average credit score	7.0

2 Interest Rate Exposure

2.1 This indicator is set to control both Councils exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as a proportion of net principal borrowed will be:

Babergh District Council **Interest Rate Exposures**	**2017/18** **£m**	**2018/19** **£m**	**2019/20** **£m**
Fixed			
Upper Limit on Fixed Interest Rate Exposure	123	138	140
Variable			
Upper Limit on Variable Interest Rate Exposure	35	35	35

Mid Suffolk District Council **Interest Rate Exposures**	**2017/18** **£m**	**2018/19** **£m**	**2019/20** **£m**
Fixed			
Upper Limit on Fixed Interest Rate Exposure	127	143	145
Variable			
Upper Limit on Variable Interest Rate Exposure	40	40	40

2.2 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

2.3 These indicators allow the Councils to manage the extent to which they are exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Councils are not exposed to interest rate rises which could adversely impact on the revenue budgets. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

2.4 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements.

3 Maturity Structure of Borrowing

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

3.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. LOBO's are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment.

Babergh District Council **Maturity structure of fixed rate borrowing**	**Existing level at 31/12/16**	**Lower Limit for 2017/18**	**Upper Limit for 2017/18**
under 12 months	0%	0	50%
12 months and within 24 months	0%	0	50%
24 months and within 5 years	2.64%	0	50%
5 years and within 10 years	13.79%	0	100%
10 years and within 20 years	82.31%	0	100%
20 years and within 30 years	0%	0	100%
30 years and above	1.26%	0	100%

Mid Suffolk District Council **Maturity structure of fixed rate borrowing**	**Existing level at 31/12/16**	**Lower Limit for 2017/18**	**Upper Limit for 2017/18**
under 12 months	8.59%	0	50%
12 months and within 24 months	0%	0	50%
24 months and within 5 years	1.84%	0	50%
5 years and within 10 years	0%	0	100%
10 years and within 20 years	36.79%	0	100%
20 years and within 30 years	33.37%	0	100%
30 years and above	19.42%	0	100%

4 Upper Limit for total principal sums invested over 364 days

4.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Councils having to seek early repayment of the sums invested. The limits on the total principal sum invested for periods over 364 days will be:

Babergh and Mid Suffolk District Councils	**2016/17 Approved £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Limit on principal invested beyond year end	2	2	2	2

INSTITUTIONS MEETING HIGH CREDIT RATINGS CRITERIA (AS AT END OF DECEMBER 2016)

This is based on UK Banks and Building Societies A-, Money Market Funds, Foreign Banks AA-. Foreign banks must be in a country with a sovereign rating of AAA.

Instrument	Long Term Rating Fitch		Counterparty
UK BANKS			
Term Deposits & Certificates of Deposit	AA-	****	HSBC Bank Plc
Term Deposits & Certificates of Deposit	A	**	Barclays Bank
Term Deposits & Certificates of Deposit	A+	****	Bank of Scotland (Lloyds Banking Group)
Term Deposits & Certificates of Deposit	A+	****	Lloyds Bank (Lloyds Banking Group)
Term Deposits & Certificates of Deposit	A	***	Close Brothers Ltd
Term Deposits & Certificates of Deposit	A	**	Goldman Sachs International Bank
Term Deposits & Certificates of Deposit	A	***	Santander UK Plc
BUILDING SOCIETIES			
Term Deposits & Certificates of Deposit	A	***	Nationwide
Term Deposits & Certificates of Deposit	A-	**	Leeds Building Society
Term Deposits & Certificates of Deposit	A	***	Coventry Building Society
FOREIGN BANKS			
Australia			
Term Deposits & Certificates of Deposit	AA-	***	Australia & NZ Banking Group
Term Deposits & Certificates of Deposit	AA-	***	Commonwealth Bank of Australia
Term Deposits & Certificates of Deposit	AA-	***	National Australia Bank
Term Deposits & Certificates of Deposit	AA-	***	Westpac Banking Group
Canada			
Term Deposits & Certificates of Deposit	AA	****	Royal Bank of Canada
Term Deposits & Certificates of Deposit	AA-	****	Bank of Montreal
Term Deposits &	AA-	****	Bank of Nova Scotia

Instrument	Long Term Rating Fitch		Counterparty
Certificates of Deposit			
Term Deposits & Certificates of Deposit	AA-	****	Canadian Imperial Bank of Commerce
Term Deposits & Certificates of Deposit	AA-	****	Toronto-Dominion Bank
Netherlands			
Term Deposits & Certificates of Deposit	AA-	****	Rabobank
Singapore			
Term Deposits & Certificates of Deposit	AA-	****	Oversea-Chinese Banking Corporation
Term Deposits & Certificates of Deposit	AA-	****	DBS Bank Ltd
Term Deposits & Certificates of Deposit	AA-	****	United Overseas Bank
Sweden			
Term Deposits & Certificates of Deposit	AA-	****	Nordea Bank AB
Term Deposits & Certificates of Deposit	AA	****	Svenska Handelsbanken
MONEY MARKET FUNDS (MMF)		*****	
Call Account	AAAmmf	*	Standard life Investments Sterling Liquidity Fund (Formerly Ignis)
Call Account	AAAmmf	*	Goldman Sterling Liquid Reserves Fund
Call Account	AAAmmf	*	Insight Sterling Liquidity Fund
Call Account	AAAmmf	*	Federated Investors (UK) Sterling Liquidity Fund (Formerly Prime rate)
Call Account		*1	BlackRock Institutional Sterling Liquidity Fund
Call Account	AAAmmf	*	Invesco AIM STIC Sterling Liquidity Portfolio

*	Overnight limit
**	Maximum limit to maturity 100 days
***	Maximum limit to maturity 6 months
****	Maximum limit to maturity 13 months
*****	Maximum exposure limit of 10% of total investments per fund
*1	Blackrock has withdrawn from Fitch Rating

MMFs – Federated is domiciled in the UK for tax and administration purposes, Standard Life, Goldman Sachs, BlackRock, Invesco and Insight are domiciled in Ireland for tax and administration purposes.

Long Term Investment Grades

Rating Agency	Rating	Definition
HIGHEST RATING		
Fitch	AAA	Highest credit quality – 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
Moody's	Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Standard & Poor's	AAA	An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's.
NEXT HIGHEST RATING		
Fitch	AA+ AA AA-	Very high credit quality 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
Moody's	Aa1 Aa2 Aa3	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
Standard & Poor's	AA+ AA AA-	An obligator rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest rated obligators only to a small degree.
THIRD HIGHEST RATING		
Fitch	A+ A A-	High credit quality – 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
Moody's	A1 A2 A3	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
Standard & Poor's	A+ A A-	An obligator rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.

PRUDENTIAL INDICATORS 2016/17 – 2018/19

1 Background

1.1 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objects of the Prudential Code are to ensure that the investment plans within the Councils are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

2 Gross Debt and the Capital Financing Requirement

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

2.2 If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

2.3 The Section 151 Officer reports that the Councils will have no difficulty meeting this requirement in 2017/18, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Babergh District Council

Gross Debt	31/3/17 Revised £m	31/3/18 Estimate £m	31/3/19 Estimate £m	31/3/20 Estimate £m
Outstanding Borrowing (at nominal value)	102.031	118.889	135.561	139.630

Mid Suffolk District Council

Gross Debt	31/3/17 Revised £m	31/3/18 Estimate £m	31/3/19 Estimate £m	31/3/20 Estimate £m
Outstanding Borrowing (at nominal value)	99.892	117.118	133.505	136.935

3 Estimates of Capital Expenditure

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels. The table below shows planned capital expenditure up to 2018/19:

Babergh District Council

Capital Expenditure	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	9.946	17.850	16.964	4.361
HRA	12.090	9.661	9.788	9.078
Total	**22.036**	**27.511**	**26.752**	**13.439**

Mid Suffolk District Council

Capital Expenditure	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	5.576	17.519	16.680	3.723
HRA	10.692	8.037	7.245	7.396
Total	**16.268**	**25.556**	**23.925**	**11.119**

3.2 Capital expenditure is expected to be financed for the General Fund and HRA as follows:

Babergh District Council

Capital Financing – GF	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m
Capital receipts	0.298	0.700	0.000	0.000
Grants & Contributions	0.404	0.292	0.292	0.292
Revenue contributions	0.000	0.000	0.000	0.000
Reserves	0.010	0.000	0.000	0.000
Total Financing	**0.712**	**0.992**	**0.292**	**0.292**
Unsupported borrowing	9.234	16.858	16.672	4.069
Total Financing and Funding	**9.946**	**17.850**	**16.964**	**4.361**

Babergh District Council

Capital Financing - HRA	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m
Capital receipts	0.446	0.013	0.502	0.067
New build additional capital receipts	0.624	0.965	0.960	1.056
Grants & Contributions	0.407	0.066	0	0
Reserves	3.761	1.500	2.972	0
Revenue contributions including Major Repairs Reserve	6.852	7.117	5.354	7.955
Total Financing	**12.090**	**9.661**	**9.788**	**9.078**
Unsupported borrowing	0	0	0	0
Total Financing and Funding	**12.090**	**9.661**	**9.788**	**9.078**

Mid Suffolk District Council

Capital Financing – GF	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m
Capital receipts	0.175	0.024	0.024	0.024
Grants & Contributions	0.319	0.269	0.269	0.269
Reserves	0.077	0	0	0
Revenue contributions	0	0	0	0
Total Financing	**0.571**	**0.293**	**0.293**	**0.293**
Unsupported borrowing	5.005	17.226	16.387	3.430
Total Financing and Funding	**5.576**	**17.519**	**16.680**	**3.723**

Mid Suffolk District Council

Capital Financing - HRA	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m
Capital receipts	2.229	0.749	0.749	0.709
New build additional capital receipts	0.912	1.132	1.210	1.292
Grants & Contributions	0.411	0.115	0.000	0.000
Reserves	3.407	2.444	3.238	2.831
Revenue contributions	3.733	3.597	2.048	2.564
Total Financing	**10.692**	**8.037**	**7.245**	**7.396**
Unsupported borrowing				
Total Financing and Funding	**10.692**	**8.037**	**7.245**	**7.396**

4 Ratio of Financing Costs to Net Revenue Stream

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code and excludes revenue contributions to capital. The ratio is based on costs net of investment income.

Babergh District Council

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	3.98%	1.84%	6.04%	7.60%
HRA	17.50%	17.45%	16.63%	16.27%

Mid Suffolk District Council

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	6.66%	1.16%	3.78%	5.48%
HRA	21.15%	21.04%	21.94%	22.94%

5 Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for capital purposes. The calculation of the CFR is taken from the amounts held on the Balance Sheet relating to capital expenditure and it's financing.

Babergh District Council

Capital Financing Requirement	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	20.938	36.896	52.556	55.479
HRA	86.258	85.758	85.258	84.758
Total CFR	**107.196**	**122.654**	**137.814**	**140.237**

Mid Suffolk District Council

Capital Financing Requirement	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	24.062	40.550	55.907	58.129
HRA	86.759	86.759	86.759	86.759
Total CFR	**110.821**	**127.309**	**142.666**	**144.888**

6 Incremental Impact of Capital Investment Decisions

6.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Babergh District Council

Incremental Impact of Capital Investment Decisions	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase in Band D Council Tax	4.21	8.77	5.60
Movement in Average Weekly Housing Rents	10.59	-10.13	18.66

Mid Suffolk District Council

Incremental Impact of Capital Investment Decisions	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase in Band D Council Tax	-4.25	12.85	6.09
Movement in Average Weekly Housing Rents	-0.82	-9.41	3.16

Note: The variations reflect changes in the value of the annual capital programmes.

6.2 The movements in Band D council tax reflect the increases / decreases in the provision for Capital Financing Charges as a result of movements in borrowing undertaken to finance the proposed capital programme from 2017/18 to 2019/20.

7 Authorised Limit and Operational Boundary for External Debt

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

7.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Councils. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Councils existing commitments, their proposals for capital expenditure and financing and their approved treasury management policy statement and practices.

7.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

7.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Babergh District Council

Authorised Limit for External Debt	2016/17	2017/18	2018/19	2019/20
	Revised	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Total Borrowing	110	126	141	143

Mid Suffolk District Council

Authorised Limit for External Debt	2016/17	2017/18	2018/19	2019/20
	Revised	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Total Borrowing	114	130	146	149

7.5 There is also an Operational Boundary for external debt, which links directly to the Councils estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

7.6 The Section 151 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 Joint Audit and Standards Committee as part of the half yearly reports.

Babergh District Council

Operational Boundary for External Debt	2016/17	2017/18	2018/19	2019/20
	Revised	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Total Borrowing	107	123	138	140

Mid Suffolk District Council

Operational Boundary for External Debt	2016/17	2017/18	2018/19	2019/20
	Revised	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Total Borrowing	111	127	143	146

8 Adoption of the CIPFA Treasury Management Code

8.1 This indicator demonstrates that the Councils have adopted the principles of best practice.

8.2 The Councils approved the adoption of the CIPFA Treasury Management Code in April 2002. CIPFA revised the Treasury Management Code in November 2011 following recent developments and anticipated regulatory changes to the Localism Act 2011, including the housing finance reforms and the introduction of the General Power of Competence.

8.3 The Councils will adopt the latest Code and the changes have been incorporated into the Treasury Management Strategy including its treasury policies, procedures and practices.

MINIMUM REVENUE PROVISION (MRP) STATEMENT 2017/18

Babergh District Council and Mid Suffolk District Council

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

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

3. The CLG Guidance requires the Councils to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

4. The four MRP options available are:

   - Option 1: Regulatory Method
   - Option 2: CFR Method
   - Option 3: Asset Life Method
   - Option 4: Depreciation Method

   The following statement incorporates options recommended in the Guidance.

5. 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 £2.4m for Mid Suffolk District Council (Option 1). Babergh District Council does not have any capital expenditure incurred before 1st April 2008 on which to charge MRP.

6. For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets as the principal repayment on an annuity starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (Option 3).

7. For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

8. There is no requirement to charge MRP in respect of Housing Revenue Account capital expenditure funded from borrowing. However, voluntary MRP contributions from the HRA may be made. Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

9. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to the Councils at that time.

Glossary of Terms

CCLA	Churches, Charities and Local Authority Property Fund
CFR	Capital Financing Requirement. The underlying need to borrow to finance capital expenditure.
CIPFA	The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services.
CLG	Department for Communities and Local Government. This is a ministerial department.
DMADF	Debt Management Account Deposit Facility.
Funding Circle	Accounts set up to lend money to local and national businesses at competitive rates
GDP	Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time.
HRA	Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
LOBO	Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan.
MRP	Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing.
MPC	Monetary Policy Committee – A committee of the Bank of England which meets each month to decide the official interest in the UK. It is also responsible for other aspects of the Government's monetary policy framework such as quantitative easing and forward guidance.
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
QE	Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply.
T Bills	Treasury Bill. A short term Government Bond.
UBS	UBS Multi Asset Income Fund (UK) - a pooled fund

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BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Assistant Director – Planning for Growth	**Report Number: JAC94**
To: Joint Audit and Standards Committee	**Date of meeting: 23 January 2017**

JOINT OPERATIONAL SYSTEMS, INTEGRATED AND EXCELLENT (JOSIE)

1. Purpose of Report

1.1 To provide further information in relation to the JOSIE Project.

1.2 To update Councillors about the actions and activities that have been put in place to respond to the findings in the Internal Audit Report dated 20 September 2016.

2. Recommendation

2.1 That the content of the report be noted.

3. Financial Implications

3.1 There are no financial implications arising from this report. The project itself has a budget and there are financial implications from its implementation at a very broad level related to efficiency and employee productivity but the Audit Report did not raise financial risks and this report relates to project governance.

4. Legal Implications

4.1 There are no legal implications rising from this report. The Councils have a contractual relationship with the IT supplier, IDOX, but it was not considered a risk in the Audit Report and is not in scope of this report.

5. Risk Management

5.1 This report is most closely linked with the Councils' Significant Risk Register No. 5a. Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to develop our use of technology to enable us to be efficient and cost effective in everything we do.	Unlikely (2)	Bad (3)	These are essentially the subject of this report so are identified below.

6. Consultations

6.1 No consultations were undertaken to inform this report.

7. Equality Analysis

7.1 There are no equality implications from this report.

8. Shared Service / Partnership Implications

8.1 The JOSIE project will make a significant contribution to efficient shared service delivery across a range of teams including Development Management, Building Control, Land Charges, Infrastructure, Heritage and Enforcement.

9. Links to Joint Strategic Plan

9.1 Joining our operational IT systems across so many areas will contribute to creating a more *Efficient and Enabled Organisation.* It will enable a more *Networked and Agile Organisation*, creating the potential for mobile working and a *Digital by Design* approach to workflow. It will also allow the Councils to provide more *Efficient Public Access Arrangements* through improving the way information is made available to the public.

10. Key Information

10.1 In 2013 Babergh and Mid Suffolk District Councils produced a business case to support re-design of the Planning Service. The business case highlighted the need to implement a joint ICT system to support the service transformation and ongoing operations. Requirements for the new system, covering a large number of Council service teams, were gathered between August and November 2014.

10.2 A tendering exercise was undertaken via the Crown Commercial Services Local Authority Government Framework, resulting in full responses from two suppliers (DEF Software Limited and Idox Software Limited).

10.3 The responses were evaluated between February and April 2015. The decision to award the contract to IDOX was taken in May 2015. Technical discussions continued during 2015 to resolve the matter of whether the system would be hosted by Suffolk County Council or IDOX.

10.4 The infrastructure to host the system was installed at SCC during the early part of 2016. Lots of background work has been undertaken during 2016, including cleansing historic data, mapping, coding the new system, and preparing for data migration (see Appendix 1). As further background material, the design principles that have guided process redesign are included in Appendix 2.

10.5 An Internal Audit Report was commissioned during 2015/16 to ensure that project governance arrangements are effective and fit for purpose (including post-project completion plans as appropriate); System architecture is documented and any system changes are formally approved; Users are appropriately engaged in the testing phase, trained and test scripts are followed and managed; and Procedures are documented for online and manual applications. The report itself was issued on 20 September 2016.

10.6 The Internal Audit Report was reported to the Joint Audit and Standards Committee on 14 November 2016 and the Committee resolved that "*the Assistant Director responsible for the JOSIE Project be asked to provide a report to the next meeting of the Joint Committee giving further information in relation to the Project...*" and the actions taken to implement Internal Audit's recommendations.

10.7 In respect of Project Governance, the Audit report suggested that *"The JOSIE PID should be updated to reflect all Stakeholders roles, responsibilities and accountabilities should be documented. Key dates should be included to show transparency and expected deliverables of JOSIE.*

The Project plan should be shared with the Project Sponsors and the Senior Responsible Officer to show full transparency of the project."

Time has moved on and the original PID no longer provides the value that it once did. Project documentation is now available to all on Sharepoint, updated in real time: https://suffolknet.sharepoint.com/sites/connect/SitePages/Home.aspx → Our Ambition → Housing Delivery Programme → JOSIE. While there is still some refining to do to make this information really accessible, it is considered to be an effective way to provide transparency of the project.

10.8 Stakeholder Communications have been good in some areas and less so in others. There has been regular and direct engagement with the project from the Senior Responsible Officer (SRO), Tom Barker, and Project Sponsors, Carl Reeder and Gary Starling. Reports have not been provided in writing, however, and this has created some risks, which were articulated in the Internal Audit report.

10.9 To address this, the Project Manager is now emailing agreed actions/decisions after each update meeting with SRO and Stakeholders. These email reports will be used as the basis for SLT and Portfolio Holder updates by the SRO.

10.10 At the more practical level, the regular weekly meetings of the Core Team are now formally minuted and shared among the team.

10.11 In terms of risk management, there is now a detailed risk and issues log on the Sharepoint site, which is updated regularly.

10.12 The Internal Audit report also recommended that JOSIE spend should be reported on to SLT to reflect 'spend of the public purse'. This will be done by the SRO as part of the Assistant Director "Highlight Report".

10.13 In terms of timescales, the new system will be live by May 2017. It will be subject to significant levels of testing and data migration in the meantime, however, so any work that flows from those tests will need to be accommodated.

10.14 Overall the Internal Audit Report highlighted a lack of formal project documentation and reporting, which has been addressed in the ways described above.

11. Appendices

Title	Location
1) Background Document	Attached
2) Design principles	Attached

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In 2013 the Councils produced a business case to support re-design of the Planning Service. This report was ratified at the MSDC Executive Committee on 14th October 2013 and at the BDC Strategy Committee on 17th October. The business case highlighted the need to implement a joint ICT system to support the service transformation and ongoing operations. Consequently, budget provision was agreed in order to support the purchase of such a system.

During 2014 BMS asked Bev Herring of Blyth and Herring Ltd. to assist with the procurement phase of a replacement computer system for a number of operational services. The Councils have been using Acolaid from Idox Computer Systems Ltd. for Planning, Building Control and Land Charges services, M3 from Northgate Services Ltd. for its Environmental and Private Sector Housing services and LalPac from Idox Computer Systems Ltd. for its Licensing Service. The initial brief was to deliver requirements to enable all of these services to be delivered from one, integrated suite of computer applications.

It was suggested that the project be named JOSIE - standing for Joint Operational Systems, Integrated and Excellent. This was to demonstrate, across the Councils, that the project is about more than replacing Planning and Building Control Systems. It is also more than a replacement for Acolaid.

Whilst in the process of completing the statement of requirements the Councils decided that the replacement of their M3 system (Environmental Services and Private Sector Housing) and of the LalPac system (Licensing) would be included as "optional" items only. In some respects this was as a result of internal discussions about the benefits to be gained from replacing systems which are already operating in a joint way across the two Councils. However, this move also helped to widen the potential number of suppliers who would be able to bid for the contract.

Even with the change in scope, the project remained wider than just a replacement of the Acolaid ICT systems. Overall the Councils wish to gain the following benefits - and retaining the name JOSIE helps to reinforce this to all staff.

- Integrated services (teams, processes etc.)
- Better customer service (by providing more self-service as well as improving the way that staff deliver the services)
- More joined up approach to holding and sharing information (internally) about potential property developments in the Councils' areas
- Efficient and smart approach to service delivery
- Widening availability of the system and the information within it across services
- Financial savings (by way of decreased ICT costs and more efficient ways of working).

Requirements for the new system, covering a large number of Council service teams, were gathered between August and November 2014.

A tendering exercise was undertaken via the Crown Commercial Services Local Authority Government Framework, resulting in full responses from two suppliers (DEF Software Limited and Idox Software Limited).

The responses were evaluated between February and April 2015. The decision to award the contract to IDOX was taken in May 2015. Technical discussions continued during 2015 to resolve the matter of whether the system would be hosted by Suffolk County Council (SCC) or IDOX.

The infrastructure to host the system was installed at SCC during the early part of 2016. Lots of background work has been undertaken during 2016, including cleansing historic data, mapping, coding the new system, and preparing for data migration.

JOSIE Project Design Principles

In designing new, joint processes, the following principles will be adopted:-

1. **Shared across the Councils** - differences between the Councils will only be adopted to support requirements of sovereignty, legality or where other, linked processes also require change which is not easily possible. (Nb. Separate processes = increased cost.)

2. **With the customer in mind** - always consider the needs of the customer and make things as simple as possible. Processes will be designed "outside in" rather than "inside out" and will reduce or remove the need for customers to contact the Councils for updates and information.

3. **Digital by default** - always set up to enable "self-service"; where customers are unable or unwilling to "self-serve" the Councils will assist. The main aim is for transparency and accessible information, thus removing unnecessary requests for information. Data will always be recorded in such a way that open data standards will be supported, making information sharing and external reporting as simple as possible.

4. **Unconstrained by current or historical practice or ICT systems** - processes to be as streamlined as possible, thinking "outside the box" to implement as simply as possible.

5. **Exceptions will be treated as exceptions** - that is, they will not be designed into the process. Before an event triggers a process or system change it will be challenged to determine whether it is to become the new "norm".

6. **The lowest cost overall** - the end to end process will be considered, to avoid having situations where change to suit one area has an adverse impact elsewhere.

7. **Input once, used many times** - data will be entered (or transferred in) once and then re-used across systems and services. At the very least data will be completely shared across Uniform modules. Information held will be used to automatically populate necessary documents, reports and to pass details between modules and processes.

8. **Supports speedy case start up and fastest closure possible** - processes will be implemented to enable cases to be quickly set up and passed on through service areas to enable decisions to be made and actions to be taken as quickly as practicable. The aim will be to get as many planning decisions made or service actions taken at the earliest possible date, resulting in time being available to deal with the more complex or difficult cases.

9. **Strategically placed -** thinking across service areas rather than within individual teams; consider the end point rather than historical working practices and transfers. If the process can be improved/made quicker by changing "who does it" then this will be considered.

10. **Minimum number of "hand offs" but no single points of failure -** best practice in workflow development shows time and time again that the more times a file/case/activity is handed between teams or team members the more time it will take to complete. Each time something is handed from one person or team to another there is added activity as information about it needs to be explained. Also, every hand off runs the risk of delay if individuals are not available to immediately take something on. The converse to this is having individuals take all responsibility for a case which then means, if that individual is away, no one can cover. There is a balance to be had which needs to be found.

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Corporate Manager – Democratic Services	**Report Number: JAC95**
To: Joint Audit and Standards Committee	**Date of Meeting: 23 January 2017**

FORWARD PLAN 2016/17

Date of Committee – 13 March 2017

Topic	Purpose	Portfolio Holder / Lead Officer
Anti-Fraud and Corruption Annual Report 2016/17	To review and note the activity for the prevention of fraud and corruption in 2016/17	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit
Internal Audit Plan 2017/18	To review and approve the Internal Audit Plan for 2017/18	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit
Update on Compliance with the Localism Act 2011	To update Councillors on the measures taken to comply with Chaper 7 of the Localism Act and to consider any actions required	Enabled and Efficient Organisation / Monitoring Officer
Complaints Monitoring Report	To report on code of Code of Conduct complaints in the previous period	Enabled and Efficient Organisation / Monitoring Officer

Date of Committee – 15 May 2017

Topic	Purpose	Portfolio Holder / Lead Officer
Annual Significant Risk Register Report 2016/17	Review the Significant Risk Register and note the management and mitigation actions being taken	Enabled and Efficient Organisation / Internal Audit and Risk Management Officer
Annual Audit Report 2016/17	To note the outcome of the Internal Audit Work in 2016/17	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit
Annual Governance Statement 2016/17	To consider and review the Joint Annual Governance Statement	Enabled and Efficient Organisation / Finance / Corporate Manager – Internal Audit

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