COUNCIL OF THE ISLES OF SCILLY

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To: *Councillors A Davis, R Francis, H Legg, D Marcus, E Rodger, J Smith, S Watt, J Williams, E Moulson (Chairman), Lady K M Berkeley, R Dorrien-Smith, Mrs F Grottick (Vice-Chairman), A Guy, Mrs A Mumford, M Nelhams and S Sims*

Committee: **FULL COUNCIL**

Date and Time: *Thursday, 22 March 2018 at 9.30 am*

SUPPLEMENT PACK 1

(Published on 15 March 2018)

Three reports from the Section 151 Officer including a replacement report for the Annual Treasury Management Strategy which was published in the original agenda pack

Please note this addendum to the original reports pack we have previously sent to you.
If you have any queries regarding the content please contact the administration department via committee@scilly.gov.uk or by phone on 01720 424000.

PART 1 REPORTS REQUIRING A DECISION

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Council of the Isles of Scilly report

Annual Governance Statement 2016/17

Date	22nd March
Meeting	Full Council
Part	1
Authors	Andy Brown, Section 151 Officer

Recommendations

1.	That the Annual Governance Statement 2016/17, as set out in Appendix 1, is approved for signing by the Chairman and the Chief Executive.

1. Summary/Introduction

1.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

1.2 As part of this responsibility, the Council is required to undertake a regular review, at least annually, of its governance framework to ensure effectiveness. The results of the review are required to be reported with the published accounts. The approval of the Annual Governance Statement is required to be confirmed by the Chief Executive and Chairman signing the statement on behalf of the Council.

1.3 The Council has only recently confirmed the governance statement for the 2015/16 accounts and hasn't undertaken a full and proper review of its Annual Governance Statement (AGS) in 2016/17 owing to the position of the Councils finances and control environment during the financial year; this will be improved upon for the 2017/18 statement of accounts.

1.4 The AGS for 2016/17 has now been prepared and is at Appendix 1. The statement includes an assessment of the control environment and significant governance issues that were present at the time and are known about now.

1.5 The framework of the control environment largely flows from previous AGS, but critically is updated to reflect the significant governance issues which were present during the financial year 2016/17 and culminated in the section 24 being issued by the external auditor in January 2017, following the submission of the 2015/16 accounts for approval.

1.6 The signing of the AGS will finalise the financial statements and external audit process for 2016/17.

2. AGS 2016/17 and Key Governance Issues

2.1 The Council needs to consider the detailed AGS at Appendix 1 and confirm their agreement to the identification of significant governance issues by the Section 151 officer.

2.2 In normal circumstances the AGS would have been agreed and prepared before or at the same time the draft financial statements are presented to the external auditor. This should have been around by the end of June 2017, but owing to the issues faced by the Council the accounts were not submitted until November 2017 and approved by Council in January 2018.

2.3 Members will be all too aware that 2016/17 was far from a normal financial year and focus, quite rightly, has been around installing control, confidence, capacity, capability and resilience into the financial team, systems and control environment. A significant step towards this was taken by the Council entering into a collaboration agreement with Cornwall Council during the year to provide the statutory officer roles of the Monitoring Officer and Section 151 Officer. This eventually paved the way for the delegation of the IT and Finance functions during the current financial year.

2.4 The issues raised represent significant priorities to the Council so it is important that the Council obtains reasonable assurance that the risks identified through them are being effectively managed or there is a plan to manage. Following approval of the AGS by this Committee it can be finalised for signature by the Chairman and Chief Executive.

Financial implications

3. There are no financial implications arising from the report.

Legal implications

4. There no legal implications arising from this report.

Other implications

5. None.

Appendices

Appendix 1**:** Annual Governance Statement 2016/17

Approval

Senior Manager		
Financial	Andy Brown, Section 151 Officer	15 March 2018
Legal	Matt Stokes, Monitoring Officer	15 March 2018

APPENDIX 1

Council of the
ISLES OF SCILLY

ANNUAL GOVERNANCE STATEMENT FOR 2016/17

1. SCOPE OF RESPONSIBILITY

1.1 The Council of the Isles of Scilly ("the Council") is responsible for ensuring that its business is conducted in accordance with the law and proper practice standards, that public money is safeguarded and properly accounted for, and that it is used economically, efficiently and effectively to secure continuous improvement.

1.2 In discharging this accountability, the Council is responsible for putting in place proper arrangements for the governance of its affairs and effective exercise of its functions, which includes the management of risk.

1.3 This Annual Governance Statement sets out how the Council has intended to comply with best practise outlined in the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and also meets the requirements of the Accounts & Audit Regulations 2015.

1.4 During 2016-17 significant governance issues continued to prevail around financial capacity and controls which are now actively being addressed, this statement sets out the governance framework and arrangements that were in place during 2016-17 but highlights the significant governance issues which remain.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 Governance is about how organisations ensure that they are making the right choices, in the right way, for the right people, in a timely, open, honest and accountable manner.

2.2 The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled, and through which it is accountable to, engages with and supports the community. It enables the Council to monitor the achievement of its strategic objectives, and to consider whether those objectives have led to the delivery of appropriate, cost effective services. These objectives are supported in the corporate plan and are underpinned by the Council's corporate values.

2.3 The governance framework is designed to manage risk to a reasonable level, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness.

3. THE GOVERNANCE FRAMEWORK

3.1 Maintaining the governance framework is an on-going process and one to which the Council is committed in order to ensure continual improvement and organisational learning.

3.2 The key elements of the systems and processes that comprise the Council's current governance arrangements are shown below together with explanations of how they are embedded and implemented within the Council.

3.3 IDENTIFYING AND COMMUNICATING THE AUTHORITY'S PURPOSE AND INTENDED OUTCOMES BY IMPLEMENTING A VISION FOR THE COMMUNITY

3.3.1 The long term vision for the Council is set out in its Corporate Plan. This document sets out how the Council will deliver its contribution to achieving some of the strategic goals set out in the 2014 Island Futures report.

3.3.2 The strategies highlighted in the Corporate Plan relate to:

- Health, wellbeing and independence
- Growth, employment and skills
- Housing quality, affordability and supply
- Place and infrastructure

3.3.3 The Corporate planning framework is how the Council develops and monitors its activities. The planning framework consists of a hierarchical organisation of plans that are aligned to ensure that corporate priorities are achieved and cascaded through the organisation. These plans are monitored and prioritised by effective risk management arrangements, the annual business plan development and performance management.

Island Futures Report Other statutory plans Eg Local Plan, etc Corporate Plan Business Unit plans Inc. Business unit objectives and performance indicators Departmental/Team work plans Individual actions Risk Management Strategic priorities and performance expectations Performance information Risk Management

3.3.4 The Council continues to strive to provide best value and to use its resources as efficiently as possible. These arrangements should, and in future will, include:

- A financial process which is audited both internally and externally to ensure confidence in the systems and controls used;
- A Medium Term Financial Planning process linking the Council's incoming and existing resources to the vision and ambitions contained within the Corporate Plan to ensure that sufficient resources are directed to the Council's priorities;
- A structured and strategic approach to procurement across the Council;
- The implementation and monitoring of an immediate and longer term savings plans.

3.3.5 The annual Statements of Accounts are produced and made available to the public in print and on the website. These documents set out to inform the community of the performance of the authority over the previous year.

3.4 MEMBERS AND OFFICERS WORKING TOGETHER TO ACHIEVE A COMMON PURPOSE WITH CLEARLY DEFINED FUNCTIONS AND ROLES AND EFFECTIVE COMMUNICATION

3.4.1 Roles and responsibilities are defined and allocated so that responsibilities for decisions made and actions taken are clear. Full Council is the main decision making body of the Council. All Councillors are members of Full Council.

3.4.2 The Council also appoints a number of committees to discharge the Local Authority's regulatory and scrutiny responsibilities. These arrangements, and the delegated responsibilities of officers, are set out in the Terms of Reference, Standing Orders and the Scheme of Delegation and other specific resolutions of Council.

3.4.3 The Chief Executive, as Head of Paid Service, is accountable for the delivery of the Council's services, its budget, the work of Council employees and the work of contractors and agencies who deliver services to the community. Full Council is responsible for the appointment of the Chief Executive.

3.4.4 During the year the Council entered into a statutory officer agreement with Cornwall Council, whereby Cornwall Council provided the officers to undertake the statutory roles of Monitoring Officer and Section 151 Officer.

3.4.5 The position of Senior Manager: Finance and Resources was the Section 151 Officer until September 2016 when the post holder left, since then Cornwall Council has provided a suitably qualified officer to undertake the role. Both were appointed under the 1972 Local Government Act and are determined as the Chief Financial Officer carrying overall responsibility for the financial administration of the Local Authority. This officer is a passive member of the Corporate Leadership Team, but critically has direct access to the Chief Executive.

3.4.6 Section 5 of the Local Government and Housing Act 1989, as amended by paragraph 24 of schedule 5 Local Government Act 2000, requires the Council to designate one of its senior managers as the Monitoring Officer. This role was undertaken by the Senior Manager: Democratic and Corporate until July 2016, since then Cornwall Council have provided the appropriate officer to undertake the role. This officer is not a member of the Corporate Leadership Team but has direct access to the Chief Executive and the Section 151 Officer.

3.4.7 The Children Act 2004 requires every upper tier local authority to appoint a Director of Children's Services and designate a Lead Member for Children's Services. The Senior Manager: Services to our Community is designated as the Council's Director of Children's

Services. This officer works with the Lead Member for Children's Services, to provide strategic leadership for local authority education and social care services for children. The responsibilities of the Director of Children's Services and Lead Member extend to all children receiving services from the Local Authority, irrespective of the type of school they attend, or their home local authority area.

3.4.8 All local authorities with social services responsibility in England are required to appoint an officer as the Director of Adult Social Services. This role has been designated to the Senior Manager: Services to our Community. This statutory role is accountable for the delivery of local authority social services functions listed in Schedule 1 of the Local Authority Social Services Act 1970 (as amended) in respect of adults (other than those services for which the Director of Children's Services is responsible).

3.4.9 The Internal Audit service is contracted out to an external supplier. The Audit function is responsible for the Council's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. The s151 Officer acts as the liaison between the Audit function and the Corporate Leadership team.

3.4.10 All employees have Statements of Particulars and role profiles which set out their roles and responsibilities.

3.4.11 The Council has clearly set out terms and conditions for the remuneration of members and officers and there is an effective structure for managing the process. A Scheme of Members' Allowances has been set by the Council having regard to a report of an Independent Panel made up of non-Councillors. The Council publishes a 'Pay Policy Statement' on an annual basis, which provides transparency with regard to the Council's approach to setting the pay of its employees

3.5 PROMOTING VALUES FOR THE AUTHORITY AND DEMONSTRATING THE VALUES OF GOOD GOVERNANCE THROUGH UPHOLDING HIGH STANDARDS OF CONDUCT AND BEHAVIOUR FOR MEMBERS AND STAFF

3.5.1 The Finance, Audit and Scrutiny Committee has responsibility for receiving and ensuring the Council's compliance with Corporate Governance issues as set out in the Terms of Reference in the Members' Handbook.

3.5.2 The Finance, Audit and Scrutiny Committee ensures that high standards of member conduct are followed. This committee monitors and reviews the effectiveness of all the Council's services and the standards and levels of service provided.

3.5.2 Employee behaviour is governed by the Employee Code of Conduct. This code has been formulated to provide a set of standards of conduct expected at work and the link between conduct at work and conduct in private life. This is reviewed annually with input from the Chief Executive, Corporate Leadership Team and the Staff Consultation Group.

3.5.3 The Council takes fraud, corruption and maladministration seriously and has such established policies and processes which aim to prevent or deal with such occurrences. These policies include:

- An Anti-fraud, Bribery and Corruption Policy;
- Whistleblowing Policy; and
- HR policies regarding discipline of staff involved in such incidents.

3.5.4 The Monitoring Officer reports to Members should any proposal, decision or omission give rise to unlawfulness or maladministration.

3.5.5 The Monitoring Officer is responsible for the arrangements that exist to ensure that members and employees are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. These include:

- Registers of disclosable pecuniary interests and disclosable other interest;
- Declarations of disclosable pecuniary and other interests at the start of each meeting in which discussions involve a matter in which a member has an interest;
- Registers of gifts and hospitality; and
- An Equal Opportunities Policy.

3.5.7 A Using and Processing Feedback Policy exists to receive, monitor and respond to any complaints received. These are processed by the Democratic and Corporate team.

3.6 INFORMED AND TRANSPARENT DECISIONS WHICH ARE SUBJECT TO EFFECTIVE SCRUTINY AND MANAGING RISK

3.6.1 The Council's decision making processes are clear, open and transparent. The Council's Terms of Reference, Standing Orders and Scheme of Delegation set out how the Council operates and the processes for policy and decision making. Agendas and minutes of all meetings are published on the Council's website.

3.6.2 The Local Authority provides decision makers with full and timely access to relevant information. It is recognised that during the 2016/17 financial year reporting of financial and budget monitoring information to the Council was inadequate. Although report templates requires information to be provided explaining the legal, financial, risk and equality and diversity implications of decisions, as well as how the decisions proposed impact on the corporate priorities, this was not always complete and also then not signed by the relevant statutory officer.

3.6.3 Reports are scrutinised and subject to internal challenge before publication. Officers are encouraged to produce reports in a timely fashion to assist committee reporting deadlines and allow opportunities for critique. This process has been developed to ensure consistency, clarity and accessibility in presentation.

3.6.3 The Council has a Risk Management Framework and regularly reviews the Corporate, Business Unit and departmental risk registers. The management of risk is monitored through the reporting of Business Unit risk registers to the appropriate committee on a regular basis. The Risk management framework is reviewed annually by the Finance, Audit and Scrutiny committee and signed off by Full Council. The Corporate and Business Unit risk registers outline the key risks faced by the Council, including their impact and likelihood. The registers also detail current and planned mitigations, controls and actions as well as 'best scenario' to encourage positive, innovative outcomes.

3.6.3 Strategic Risk Registers are scrutinised and updated on a fortnightly basis by Corporate Leadership Team.

3.6.4 The Finance, Audit and Scrutiny committee approves and reviews the internal audit programme and oversees the implementation of audit recommendations

3.7 DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS TO BE EFFECTIVE

3.7.1 The success of Council services relies substantially on the contribution of employees to the planning, development and delivery of services. The Council recognises that the value of staff contributions will be enhanced and given greater value through clear communication of the Council's expectations, developing staff skills and abilities, and providing a safe, healthy, supportive and inclusive working environment.

3.7.2 In order to develop staff, the Council has created a Learning and Development policy which includes a Performance Development Process. This addresses skill development in a structured and organised way. The policy also helps the Local Authority asses its current workforce and people management and to identify any skills gaps that need to be filled.

3.7.3 There are separate corporate induction processes for both members and staff.

3.7.4 The Local Authority promotes health and wellbeing to its employees by actively monitoring sickness statistics, and making a confidential, independent counselling service available to all staff if necessary.

3.7.5 The Council recognises trade unions. Union representatives are on hand to assist staff with queries and advice on matters pertaining to staffing issues.

3.7.6 Members are also encouraged to identify individual needs for development as and when they arise. Currently there is no formal process for reviewing individual Members' training needs. A Member Development Policy, including a Member Skills Framework, has been developed in conjunction with members, but not signed off.

3.8 ENGAGING WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS TO ENSURE ROBUST PUBLIC ACCOUNTABILITY

3.8.1 The Council recognises the importance of consultation as a way to engage and enthuse service users and the community. In addition to statutory consultations on large projects, the Council is committed to at least bi-annual public meetings on all islands. These are used as a two-way discussion as well a method of dissemination of decisions and direction.

3.8.2 In this period, the Council has worked in partnerships with a wide variety of bodies. The Council facilitated and took part in consultations and partnerships that have included:

- Community Safety Partnership
- Cornwall and Isles of Scilly Safeguarding Children's Board
- Cornwall and Isles of Scilly Safeguarding Adult's Board
- The Cornwall and Isles of Scilly Local Enterprise Partnership (LEP)
- Cornwall and Isles of Scilly Local Nature Partnership
- Local Transport Board with LEP and Cornwall Council
- Island Futures Board
- Smart Islands Partnership
- Transport Task and Finish Group
- AONB Partnership
- Waste Forum
- The Duchy of Cornwall on housing, environment and economy
- The Local Transport Partnership
- The Five Island School Travel Plan working group
- Working Group on Water and Sewerage Services and Investment on the Isles of Scilly with the Environment Agency (EA), Drinking Water Inspectorate (DWI), Water Services Regulation Authority (OFWAT), Department for Environment, Food and Rural Affairs (DEFRA), Tresco Estate and the Duchy of Cornwall
- Island Business Partnership
- Housing Partnership
- Individual Housing Associations
- Health Partners and Foundation Trusts
- Multi-Disciplinary Team Meetings in Adult Social Care
- Bloom – Emotional Health in Children Partnership

- Local Resilience Forum
- Local Government Association (LGA) in regards to a Peer Challenge
- Other Local Authorities including Cornwall Council, Teignbridge Council etc.

3.8.3 Information on the democratic running of the Council is routinely published on the Council's website and includes:

- The Council's Standing Orders, Financial Regulations and Terms of Reference for committees;
- Minutes, agenda and video recordings of Council committees;
- All financial payments made to suppliers that are equal or greater than £250;
- An organisational chart including the salaries of senior staff; and
- Compliance over and above the guidelines laid out in the Transparency Code 2015.

3.8.4 The public is encouraged to give comments, compliments and complaints in order for the Members and Officers to achieve a greater understanding of the views of residents and visitors.

3.8.5 The Communication Strategy 2010 establishes and maintains channels of communication between employees, partners and members to enable the Council's goals and objectives to be clearly understood.

3.8.6 All staff are invited to, and given time to attend monthly staff meetings. These meetings are used to provide updates on topical events and communicate current council policies and consultations. They are also used to promote shared understanding of roles, targets and to enable staff to understand each other's areas of responsibility.

3.8.7 Information posters are distributed throughout the community prior to elections and by-elections to encourage individuals from the community to contribute to the work of the Council.

3.8.8 The Council communicates news, updates and information via multiple channels – its website, social media (Facebook and Twitter), posters and leaflets, and via public consultations.

3.8.9 Members of the community are encouraged to become co-opted Members, with certain voting rights, and advisors for certain Council Committee meetings.

4. REVIEW OF EFFECTIVENESS

4.1 The Council of the Isles of Scilly has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework including the system of internal control. The review of the effectiveness is informed by the work of the Senior Managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is:

- The work of the Finance, Audit and Scrutiny committee as the Council's Audit and Scrutiny function;
- The Council's internal management processes, such as:
- Staff Personal Development Plans (appraisals);
- Consultation on internal policies through the Staff Consultation Group;
- Monitoring of mandatory courses
- Monitoring of corporate policies on whistleblowing, health and safety and complaints; and
- The security breach policy.
- The report of the commissioned Internal Audit function which provides an independent and objective opinion on the effectiveness of internal control and risk management;
- The opinion of the external auditor on the Council's financial statements and conclusion on whether the Council has put in place proper arrangements to secure efficiency and effectiveness in its use of resources (Value for Money);
- The opinion of other external auditors (OFSTED, CQC, CAA etc) on Council provided services;
- The operation of the Council's risk management (and performance management) framework;
- The work of the Democratic Processes Panel, which has an initial overview of the policies and processes currently used by the Authority and recommends amendments appropriately;
- Quality Assurance Process in Children's Social Care including a self-assessment
- Peer review of services through Association of Directors of Adult Social Services, Association of Directors of Children's Services and the Local Government Association; and
- Section 11 Audit for Local Safeguarding Children's Board.

4.4 Significant governance issues 2016/17

The paragraphs below identify the most significant governance issues that are to be addressed through 2017/18 and, owing to the time this report is presented, on into 2018/19.

4.4.1 **Financial Control, Capability and Systems** – The section 24 notice issued by the External Auditor on the 2015/16 statement of accounts effectively signalled the Council to get significantly improve a number of issues around its financial position, systems and control environment. Six recommendations were made to the Council, they were:

- Re-examine the Level of General Fund Reserves
- Review budgetary control procedures and reporting to members
- Review medium term financial strategy
- Carry out a 12 month rolling cash flow forecast
- Review the capacity & skills required with the finance team

Work continues to address these issues, some have been addressed during 2017/18, but some are ongoing, not the least the improvement of budgetary control and reporting to members through the implementation of a new financial system.

The Council should ensure regular reports on the progress of the new financial system, as well as regular budget monitoring reports that are accurate and provide the information members need to deliver their corporate plan.

4.4.2 **Collaboration Agreement with Cornwall Council** - The Council entered into a collaboration agreement with Cornwall Council to provide statutory officers. Whilst this is a positive move in terms of resilience, capacity and potential savings to the Council, it is a shift from the previous arrangements.

During 2017/18 the collaboration agreement has expanded to recognise other functions as well as leading to a full delegated function of the finance service, including the Section 151 role, and the IT service.

4.4.3 **Governance Arrangements** – during 2016/17 a democratic processes panel (DPP) was set up to look at proposals for the future governance structure of the Council of the Isles of Scilly. The outcomes of this review are known and now in effect, with the new Committees and scheduling in operation since the elections in May 2017, together with the reduction in the number of members from 21 to 16.

4.4.4 **Adult Social Care** – Adult Social Care, including the safe operation of Park House, is a key function and priority for the Council. The arrangements, performance and interactions with key stakeholders, not lease the NHS, will be of strategic importance to the Council.

The sustainability transformation plan sets out a direction of shaping the future for Cornwall and the Isles of Scilly NHS area that will undoubtedly impact and effect arrangements on the islands.

4.4.5 **Financial Sustainability and Medium Term Planning** – As highlighted by the External Auditor and the LGA review, the Council needs to review its existing Medium Term Financial Plan (MTFP) and put in action proposals to ensure the Council is sustainable going forward.

Previous MTFPs were confusing and inaccurate; this has been recognised and corrected in 2017/18 for the setting of the 2018/19 budget; during 2016/17 focus was on ensuring a legally balanced budget in 2017/18.

The MTFP was presented to Council and provides proposals for savings and longer term options which the Council is now actively seeking to explore.

4.4.6 **Corporate Plan and Organisational Development** - The LGA peer review published in October 2015, whilst generally positive, highlighted areas for possible improvement. One of the key recommendations was a "lack of clear prioritisation, co-ordination and focus for organisational development." There are many conflicting priorities for staff time and the creation of the Corporate Plan has helped to focus the importance of those tasks. In order for the prioritisation to remain relevant, the Corporate Plan should be reviewed. This will help senior management create plans which are realistically resourced and managed. There will be ongoing work, through the improved governance around the submission of papers, budget monitoring and the capital project governance framework, which will ensure that this prioritisation can be effective.

INTER AUTHORITY AGREEMENT

5.1 The Council recognises the need to address issues identified in the Audit Findings Report. The adoption of an Inter Authority Agreement with Cornwall Council represents a key mechanism to address issues relating to financial capacity and skills, including monitoring. The strategic collaboration with Cornwall Council will provide the access to this expertise and capacity, albeit at a cost, but one that will be cheaper and more focussed.

CONCLUSION

The Council's governance arrangements were recognised as weak in relation to finance and generally fit for purpose in most other areas in accordance with the governance framework. The Council is committed to enhancing these arrangements and ensuring that the improvements required are prioritised and sufficiently resourced.

Leader	Date
Chief Executive	Date

Council of the Isles of Scilly report

Annual Treasury Management Strategy 2018/19

Date	22nd March 2018
Meeting	Full Council
Part	1
Authors	Andy Brown S151

Recommendations

1.	The Annual Treasury Management Strategy 2018/19, as set out in Appendix 1, is approved.
2.	The Prudential Indicators and Treasury Indicators 2018/19 – 2020/21 as detailed in section 2 and 3.2 of Appendix 1 be approved.
3.	The Annual Investment Strategy 2018/19 as detailed in section 4 of Appendix 1 be approved.
4.	The Minimum Revenue Provision Policy 2018/19 as detailed in section 2.3 of Appendix 1 be approved.

1. Summary/Introduction

1.1 In accordance with statutory guidance and the Council's Financial Procedure rules, this report presents the Treasury Management Strategy Statement for 2018/19 which includes the Annual Investment Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) policy. All are detailed in Appendix 1 of this report.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions and the effective control of the risks associated with those activities to obtain optimum performance consistent with those risks".

1.3 The Council's treasury management process requires decisions involving the cash flows of around 20 million pounds. The execution, sophistication and timing of these decisions can make a significant difference to the Council's revenue budget each year. The revenue impact of the treasury management function forms part of the overall budgetary process in the Council and is carried out by the Finance Service.

1.4 The Annual Treasury Management Strategy sets out how the Council intends to manage these issues and their associated risks over the course of 2018/19. The Prudential Indicators demonstrate that the Council's capital investment plans are affordable, prudent and sustainable. The Minimum Revenue Provision (MRP) policy sets out the Council's policy in setting aside revenue amounts for provision in respect of capital expenditure financed by borrowing.

1.5 The CIPFA Code of Practice on Treasury Management 2011 (The Code) recommends that local authorities should, as a minimum, report annually to Council on the Treasury Management Strategy before the start of the financial year, report the position mid-year and prepare an annual report following the year end. The Annual Treasury Management Strategy, as set out at Appendix 1 to this report, is therefore produced in order to comply with this recommendation.

1.6 Guidance issued by the Secretary of State in 2010 requires the production of an Annual Investment Strategy to be approved by the Council setting out policies for managing investments and this is also detailed in Appendix 1.

1.7 Furthermore, the Council is required to have regard to CIPFA's Prudential Code for Capital Finance 2011 which underpins the system of capital finance to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The prudential indicators required by this Code are also designed to support and record local decision-making in a manner that is publicly accountable.

1.8 The Local Authorities Capital Finance and Accounting Regulations 2008 require the approval of a MRP Policy in advance of each financial year within which the Council should determine a prudent mechanism for making a provision for the repayment of borrowing incurred to support capital expenditure. More precisely, this charge forms part of the revenue budget for the cost of capital expenditure financed through borrowing.

1.9 The Council is required to operate a balanced budget. This can be broadly put as the total cash raised during the year will meet total cash expenditure. Part of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity before considering investment return.

2. Annual Treasury Management Strategy 2018/19

2.1 Appendix 1 details the current Annual Treasury Management Strategy 2018/19, the Annual Investment Strategy 2018/19, the Prudential Indicators 2018/19 to 2020/21 and the MRP Policy 2019/20.

2.2 The key principles of the Annual Treasury Management Strategy are:

- Annual Investment Strategy – Setting out the priority and criteria for where, who, how long and how much the Council can invest its surplus cash.
- Borrowing Strategy – Setting out how the borrowing required to finance the Capital Programme now and in the future will be undertaken.
- Operational Boundary and Authorised Limit – Limits set for the total external debt permitted by the Council for daily operation and a maximum level of borrowing.
- Capital Financing Requirement – the Councils underlying borrowing need

2.3 The Council's Borrowing Strategy effectively sets out that the Council is under borrowed, which means that the capital borrowing need has not yet been fully funded by long term debt; instead the Council's own cash reserves have been used to delay this requirement.

2.4 The Councils cash reserves however have now been run down to minimal levels in recent years, and this is clearly demonstrated by the Capital Financing Requirement which shows, in section 3.1 of Appendix 1, where the Council is under borrowed to the tune of £5m and will continue to be considerably under borrowed for the future despite forecast long term borrowing.

2.5 This position probably reflects the reality that where the Council had previously resolved to borrow to fund a capital project, that internal cash was then used to finance the transaction, however this only delays the need to borrow.

2.6 In recent years this strategy makes prudent sense and the proposed Borrowing Strategy is to continue with this approach; with current market conditions long term borrowing interest rates are forecast to remain at around 3.0% with the Council's average investment return less than 1%. Therefore there is over 2.0% cost of carry for any borrowing undertaken in e.g. for every £1 million borrowed the cost of carry to the Council is around £20k.

2.7 Therefore the Strategy is viewed as the most prudent approach due to the current economic conditions; however the Section 151 Officer will be monitoring the cash flow position and interest rate levels and, with a £5m under borrowed position, may decide to act to secure cheap long term borrowing.

2.8 Temporary borrowing to smooth the Councils cash flow position will be transacted upon throughout the financial year, therefore the Council needs to set limits to the maximum level of debt. These are set out in Appendix 1.

2.9 If the operational boundary is breached it needs to be reported to Council with an explanation of how this arose. The authorised limit is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although to date this power has never been exercised.

3. Current Treasury Position

3.1 The Councils current treasury position is secure and within statutory indicators and the approved strategy. At the start of the financial year the Council had £0.046m of long term debt, short term debt of £2m and surplus cash held at the bank of £2.474m.

3.2 During the financial year the one temporary loan of £2m, which was secured from Middlesbrough Council in the previous financial year, was repaid. The interest rate was fixed at 0.32% and the temporary loan will incurred interest of £1,052.

3.3 Although there is delegated authority to the Section 151 Officer to undertake borrowing, owing to the focus and transparency on the Councils financial position, long term borrowing approvals were obtained from Council during the financial year and it is anticipated this will be taken up before the year end as outlined in those reports.

Financial implications

4. The entire report deals with financial information and implications are detailed throughout.

Legal implications

5. There are no adverse legal implications identified as arising directly from this report. The Council, through its Treasury Management Policy, must ensure it complies fully with the requirements set out in the Local Government Act 2003 and in the guidance / code of practice issued by the Department of Communities and Local Government (DCLG) and CIPFA.

6. Failure to comply with these financial responsibilities may leave the Council open to significant risk of challenge from the initial failure to comply and from actions that are subsequently taken in the absence of appropriate controls, including its fundamental fiduciary duty to the taxpayer.

Other implications

7. None.

Appendix A**: Annual Treasury Management Strategy 2018/19**

Approval

Senior Manager	[Name and job title of Senior Manager]	[DATE]
Financial	Andy Brown, Section 151 Officer	12 March 2018
Legal	Matt Stokes, Monitoring Officer	13 March 2018

APPENDIX A

Isles of Scilly Council 2018/19

Annual Treasury Management Strategy
Annual Investment Strategy
Prudential Indicators and
Minimum Revenue Provision Policy Statement

INDEX

1 INTRODUCTION

1.1 Background

The Council of the Isles of Scilly is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define treasury management as:

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

1.2 Reporting requirements and Scrutiny

In the context of treasury management, the Council of the Isles of Scilly is required to receive and approve, as a minimum, two main reports each year, which incorporate a variety of polices, estimates and actuals.

The report on the Annual Management Treasury Strategy, covering the Prudential and Treasury indicators is the first and most important report and covers:

- Capital plans, including prudential indicators
- Minimum revenue provision (MRP) policy – how residual capital expenditure is charged to revenue over time
- Treasury Management Strategy – how the investments and borrowings are to be organised, including Treasury indicators; and
- Investment Strategy – how the parameters on how investments are to be managed.

An annual treasury outturn report provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the treasury strategy.

1.3 Scope of Treasury Management Strategy for 2018/19

The Strategy for 2018/19 will cover the following areas:

Capital Activity:

- Capital plans, in line with the approved programme
- Capital prudential indicators including the Capital Financing Requirement (CFR)
- Minimum Revenue Provision (MRP) policy

Treasury Management Activity:

- Current and forecast treasury position
- Treasury indicators which limit the treasury risk and activities of the Council
- Prospects for interest rates
- Borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- Annual Investment Strategy and

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management, this will be built into future training for new members following Council elections in May 2017.

2 THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members in their overview and consideration of capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle:

Capital Expenditure £'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	2,595.0	5,408.8	2,839.6	889.6	389.6

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure £'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	2,595.0	5,408.8	2,839.6	889.6	389.6
Financed By:					
Grants	1,768.0	4,958.8	2,389.6	669.6	269.6
Reserves	469.0	200.0	200.0	-	-
Capital Receipts					
Revenue Contribution	358.0	140.0	140.0	90.0	90.0
External Contributions		80.0	80.0	100.0	-
Prudential Borrowing		30.0	30.0	30.0	30.0
	2,595.0	**5,408.8**	**2,839.6**	**889.6**	**389.6**

2.2 The Capital Financing Requirement

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

Capital Financing Requirement (CFR) £'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Opening CFR	5,340.0	5,140.0	5,065.0	4,990.0	4,915.0
Movement	-200.0	-75.0	-75.0	-75.0	-75.0
Closing CFR	5,140.0	5,065.0	4,990.0	4,915.0	4,840.0
Movement in CFR represented by:					
Minimum Revenue Provision	-108.0	-105.0	-105.0	-105.0	-105.0
Other adjustments	-92.0	-	-	-	-
Borrowing for the Year	-	30.0	30.0	30.0	30.0
	-200.0	**-75.0**	**-75.0**	**-75.0**	**-75.0**

2.3 Minimum Revenue Provision (MRP) Policy 2018/19

As part of the MRP regulations the Council is required to approve a policy for calculating a prudent level of MRP on borrowing undertaken for the 2018/2019 capital programme and prudential borrowing undertaken in previous years. It is proposed that the Council of the Isles of Scilly adopts the following MRP policy:

i. For capital expenditure financed by supported borrowing by the Government through the Revenue Support Grant system, MRP will be made on a straight line basis over a period of 50 years (i.e. 2%) based on the Opening Adjusted Capital Financing Requirement as at 1st April 2016.

   This effectively means that, for capital expenditure financed by borrowing prior to April 2007, MRP is made based on a straight line (equal instalment) method over a 50 year period (2%).

ii. For borrowing under the prudential system, for which no Government support is given, MRP provision will be made over the estimated life of the asset for which the borrowing is undertaken. This will be done on a straight line basis in-line with the asset life determined for depreciation purposes and the MRP provision will commence in the financial year following the one in which the asset becomes operational.

    This effectively means that, for capital expenditure financed by borrowing after 1 April 2007, MRP is made on the basis of equal annual instalments over the life of relevant assets: the 'straight line' method.

MRP will not be made on the value of Long Term Debtors outstanding, as these will be repaid by third parties and therefore it is not deemed necessary to make an additional revenue charge in relation to these amounts. However, if the third party is not making annual repayments of principal, then MRP payments will be made over the life.

For future changes in accounting regulations to International Financial Reporting Standards (IFRS) it is likely that the Council will have to change the current classification of some of its leases. This will mean that we have to bring new finance leases onto the balance sheet and account for the principal element of any lease payments in order to reduce the lease liability. MRP payments made in respect of these finance leases will be equal to the principle element of the lease payments.

2.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.5 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund Capital Financing	2.4%	2.4%	2.8%	2.8%	2.8%

The estimates of financing costs include current commitments and the proposals for the capital financing budget in the relevant budget setting report.

2.6 Incremental impact of capital investment decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the budget report compared to the Council's existing approved commitments and current plans.

The assumptions are based solely on the capital financing budget and the planned future increases required to meet the Council's capital investment plans. It should be noted that the indicator purely looks at that budget line in isolation and does not take into consideration the overall budget setting for the Council.

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Annual Council Tax Band D	£0.00	£0.00	£15.05	£0.79	£0.79

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current and Forecast Portfolio position

The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt £'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Opening Debt	74.0	46.0	831.0	2,321.0	3,316.0
Expected change	-28.0	785.0	1,490.0	995.0	-5.0
Closing Debt	46.0	831.0	2,321.0	3,316.0	3,311.0
Capital Financing Requirement	5,140.0	5,065.0	4,990.0	4,915.0	4,840.0
Under / (Over) borrowing	**5,094.0**	**4,234.0**	**2,669.0**	**1,599.0**	**1,529.0**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Section 151 Officer reports that the Council is forecast to comply with this prudential indicator in the current year 2017/18 and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: limits to borrowing activity

The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

The Authorised Limit for external debt is a key prudential indicator which sets a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although to date this power has never been exercised.

Treasury Limits on Borrowing £'000	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Operational Boundary	3,500.0	3,500.0	3,800.0	4,000.0
Authorised Limit	3,750.0	3,750.0	4,000.0	4,250.0

3.3 Prospects for interest rates

The table below provides the latest forecasts obtained from public Treasury documents. The PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

	Bank Rate %	PWLB Borrowing Rate % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Dec-17	0.50%	1.50%	2.10%	2.80%	2.50%
Mar-18	0.50%	1.60%	2.20%	2.90%	2.60%
Jun-18	0.50%	1.60%	2.30%	3.00%	2.70%
Sep-18	0.50%	1.70%	2.40%	3.00%	2.80%
Dec-18	0.75%	1.80%	2.40%	3.10%	2.90%
Mar-19	0.75%	1.80%	2.50%	3.10%	2.90%
Jun-19	0.75%	1.90%	2.60%	3.20%	3.00%
Sep-19	0.75%	1.90%	2.60%	3.20%	3.00%
Dec-19	1.00%	2.00%	2.70%	3.30%	3.10%
Mar-20	1.00%	2.10%	2.70%	3.40%	3.20%
Jun-20	1.00%	2.10%	2.80%	3.50%	3.30%
Sep-20	1.25%	2.20%	2.90%	3.50%	3.30%
Dec-20	1.25%	2.30%	2.90%	3.60%	3.40%
Mar-21	1.25%	2.30%	3.00%	3.60%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November 2017 - effectively reversing the emergency cut made in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The above forecast assumes increases will be made in the Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established.

The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. However, from time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period

3.4 Borrowing strategy

The Council of the Isles of Scilly is currently forecast to be significantly under-borrowed at the end of the year and on the whole will seek to maintain that position.

This means that the capital borrowing need i.e. the Capital Financing Requirement, has not been fully funded with long term loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. Although this strategy is prudent as investment returns are low and counterparty risk is relatively high and will continue for financial year 2018/19, the Council has run its cash reserves down to minimal levels and will need to consider the possibility of long term borrowing in 2018/19 to reflect historically that it should have borrowed to fund capital expenditure.

However, against this background, and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic and flexible approach to changing circumstances.

Temporary borrowing will continue to be undertaken during 2018/19 in order to smooth cash flows and actively manage the Council's Treasury position. Total borrowing levels will remain within the strategy's defined operational boundary.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

As detailed in the Borrowing strategy, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future, when the Council may not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt or called in debt.

3.6 Treasury Management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

£'000 Interest Rate Exposure	2018/19 Upper	2019/20 Upper	2020/21 Upper
Limits on fixed interest rates based on net debt	3,000	3,000	3,000
Limits on variable interest rates based on net debt	1,000	1,000	1,000

Indicators for debt only and investments only as well as fixed and variable debt maturity profile have been included as local indicators.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy

The Council has regard to the Department of Communities and Local Government (DCLG) guidance 2010 as cited under section 15(1) (a) of the Local Government Act 2003 and the CIPFA Code of Practice on Treasury Management in Public Services.

The Secretary of State recommends that each local authority produce and publish an Annual Investment Strategy, approved by the Council and revised in year as required. This sets out the Council's policies for managing investments and for giving priority to the security and liquidity of those investments. This investment strategy states which instruments the Council may use for investment purposes, making a distinction between specified and non-specified investments. This strategy also determines limits in respect of their overall levels.

The prime objective of the Council's investment strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are as follows, in order of priority:

- Security of capital,
- Liquidity of investments,
- Secure optimum performance (yield)

Specified investments are those that meet the following criteria:

- The investment is denominated in Sterling and all payments or repayments are payable only in Sterling
- The investment is not a long term investment i.e. due to be repaid within 12 months of the date in which it was made
- The investment is made with a body which has been awarded a high credit rating, or is made with one of the following:
    a. The United Kingdom Government;
    b. A Local Authority in England and Wales, or a similar body in Scotland or Northern Ireland;
    c. A Town / Parish or Community Council.
- The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended]

Non-specified investments are defined as those not meeting the above criteria.
The following categories of investments may be used under the definition of specified investments:

- Short term cash deposits & call accounts
- Debt Management Account Deposit Facility deposits
- Forward deals (provided the maturity date is < 1 year from when the investment was made)
- Certificates of Deposit (with maturity dates < 1 year)
- UK Government Gilts & Treasury Bills

- Money Market Funds
- UK Government & Multinational Development Bank bonds .

The Council considers a high credit rating for money market funds to be those with a long term Fitch Rating of AAA, or the equivalent highest rating from Standard and Poors or Moodys. The Council will have regard to all 3 rating agencies and considers a high credit rating for other investments to be as follows:

Organisation	Criteria	Maximum Amount	Maximum Period
Deposit with Banks and Building Societies	AA- and F1+ or above	£10m	3-5 years
	AA- and F1	£5m	2 years
	A+ and F1+	£2.5m	2 years
	A and F1	£1.0m	1 year
UK Local Authority Bonds		£5.0m	30 years
UK Local Authority Deposits		£10.0m	3-5 years
Nationalised and Part Nationalised Banks		£5.0m	1 year
Money Market Funds (MMF)	AAAm long-term rating, backed up with lowest volatility rating MR1+	£5.0m	Not applicable as callable
Bonds issued by Multilateral Development Banks (MDBs)	AAA or those institutions guaranteed by the UK Government	£2.5m	50 years

Fitch defines these ratings as follows:

- F1: Highest (short-term) credit quality; Indicates the strong capacity for timely payment of financial commitments

- A: High credit quality; ‘A’ ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to change in circumstances or economic conditions than is the case for higher ratings.

Obligations rated ‘A’ are considered upper-medium grade and are subjected to low credit risk.
Caution will be exercised in determining the creditworthiness of investment counterparties, even if they meet the minimum criteria above.
In the event that any institutions are at the minimum criteria and are on negative rating watch, monies will not be placed with that organisation until such time that the negative outlook is revised.

Geographical limits and diversification will be considered to ensure an appropriate spread of risk. Sovereign ratings will be taken account of when placing funds with institutions outside of the UK.

In addition, the Council will monitor Credit Default Swap Spreads which will also contribute to forming a view of the creditworthiness of investment counterparties. Market intelligence will also be considered before entering into any investments with proposed counterparties meeting the minimum criteria.

In respect of non-specified investments, the Council sets an overall limit on the level of these investments as 75% of the total investment portfolio. The following instruments will be used by the Council and the following limits will apply to each category of non-specified investments:

Category of Non-Specified Investment	Upper Limit
Sterling denominated Foreign Government Securities	25%
Sterling medium term Deposits or Certificates of Deposit	90%
Floating rate Certificates of Deposit	25%
Highly rated Corporate Bonds, including Corporate Bond Fund	10%
Sterling Reserve Funds	20%
Index-linked structured deposits	20%
Collateralised deposits	20%
Foreign currency denominated investments	10%
Deposits with non-rated Building Societies	10%

The Secretary of State recommends that the Investment Strategy sets out the maximum period over which investments will be made. As a result of the nature of some of the existing investments the existing portfolio contains instruments with maturity dates up to 30 years. The Council feels that, provided investments made in excess of 5 years are made in instruments capable of being sold if necessary, that it would be appropriate to continue to make longer term investments in line with approved treasury management practices.

Regulation 25(1) (d) of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 states that some categories of investment are defined as Capital Expenditure. This relates to the acquisition of share or loan capital in any body corporate. The impact of investing in instruments of this nature are such that unlike other investment instruments, either capital or revenue resources would have to be applied to this expenditure, and once the investment was sold or matured, the income would be a capital receipt.

5 GLOSSARY OF TERMS

- **Annuity** – method of repaying a loan where the payment amount remains uniform throughout the life of loan, therefore the split varies such that the proportion of the payment relating to the principal increases as the amount of interest decreases.

- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations, also the standard setting organisation for Local Government Finance.

- **Counterparty** – an institution (e.g. a bank) with whom a borrowing or investment transaction is made.

- **Credit Rating** – is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. It is based on any information available regarding the institution: published results, Shareholders' reports, reports from trading partners, and also an analysis of the environment in which the institution operates (e.g. its home economy, and its market sector). The main rating agencies are Fitch, Standard and Poor's and Moody's. They analyse credit worthiness under four headings:
  Short Term Rating – the perceived ability of the organisation to meet its obligations in the short term, this will be based on measures of liquidity.
  Long Term Rating – the ability of the organisation to repay its debts in the long term, based on opinions regarding future stability, e.g. its exposure to 'risky' markets.
  Individual/Financial Strength Rating – a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank or national government.
  Legal Support Rating - a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank, or national government.

The rating agencies constantly monitor information received regarding financial institutions, and will amend the credit ratings assigned as necessary.

- **DMADF and the DMO** – The DMADF is the 'Debt Management Account Deposit Facility'; this is highly secure fixed term deposit account with the Debt Management Office (DMO), part of Her Majesty's Treasury.

- **EIP** – Equal Instalments of Principal, a type of loan where each payment includes an equal amount in respect of loan principal is eroded, and so the total amount reduces with each instalment.

- **Gilts –** the name given to bonds issued by the UK Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt, e.g. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as 8%/1.45 = 5.5%.

- **LIBID** – The London Interbank Bid Rate, the rate which banks would have to bid to borrow funds from other banks for a given period. The official rate is published by the Bank of England at 11am each day based on trades up to that time. The average 7 day rate is the benchmark the Council uses for its own investment performance.

- **Liquidity** – Relates to the amount of readily available, or short term, investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.

- **Maturity** - Type of loan where only payments of interest are made during the life of the loan, with the total amount of principal falling due at the end of the loan period.

- **Minimum Revenue Provision (MRP) –** A statutory amount charged to the Council's revenue account for the provision to repay the loan principal on debt undertaken to finance the Capital Programme. For the Council this is done on a straight line basis in-line with the asset life and commences the financial year after the asset is operational.

- **Policy and Strategy Documents** – Documents required by the CIPFA Code of Practice on Treasury Management in Local Authorities. These set out the framework for treasury management operations during the year.

- **Public Works Loans Board (PWLB)** – a central government agency providing long and short term loans to Local Authorities. Rates are set daily at a margin over the Gilt yield (see Gilts above). Loans may be taken at fixed or variable rates and as an Annuity, Maturity, or EIP loans (see separate definitions) over periods of up to fifty years. Financing is also available from the money markets, however because of its nature the PWLB is generally able to offer better terms.
- **Yield** – The amount in cash (in percentage terms) that returns to the owners of an investment e.g. interest earned from a deposit.

Council of the Isles of Scilly report

Revenue Budget Monitoring 2017/18

Date	22nd March
Meeting	Full Council
Part	1
Authors	Andy Brown, Section 151 Officer

Recommendations

1.	That the Council notes the Revenue budget monitoring position as at 28 February 2018.
2.	That delegated authority be given to the Section 151 officer, in consultation with the Chairman and Vice Chairman, to decide upon any reserve movements required to ensure the 2017/18 year end draft accounts are submitted to the external auditor.

1. Summary/Introduction

1.1 This report sets out the budget monitoring position to members for the period up to 28 February 2018 for the 2017/18 financial year.

1.2 This is the first report being generated from data now held in the Councils new financial accounting system which went live on 1 March 2018. Data will continue to be transferred over and the 2017/18 accounts will be closed and prepared on the new system as planned.

1.1 The Councils net revenue budget for 2017/18 was approved by Council in March 2017 at £4.798m. Included within this was a savings target of £0.609m. In addition a one-off NNDR deficit was being mitigated by a draw on the general fund reserve of £0.120m and it was anticipated that trading accounts would contribute to reduce the pressure on services by £0.226m.

1.2 February's budget monitoring position has been largely based on an update of the January position as resources are being focussed on the go-live migration of financial systems and preparations for the financial year-end. This review was undertaken in conjunction with senior managers to inform the forecast position.

2. Revenue Budget Monitoring 2017/18 – February 2018

2.1 The forecast outturn position as at the end of January 2018 was for an underspend of £0.209m including revenue contributions to capital expenditure of £0.073m. As at 28 February 2018 the Council is now forecasting a year-end underspend against its revenue budget of £0.200m, a small decrease from the January position.

2.2 This position still includes budgeted reserve movements and trading account contributions. It also includes revenue contributions to capital projects of £0.073m, the majority of which (£0.055m) relates to asbestos removal and IT improvements, with £0.018m spent on a number of other minor works. Implicit within the February figures are the delivery of savings against the Council's savings target. Savings of £0.539m have been achieved to date against a target of £0.609m.

2.3 Work is continuing to embed improved financial reporting at the Council. As we approach the end of the 2018/19 financial year preparations for producing the Council's accounts are well underway.

2.4 As previously mentioned over the last month much focus has been on the transition of the Council's financial information from its current Sage system to the ERP system hosted by Cornwall Council. This has been a challenging piece of work necessitating the cleansing and transfer of in the region of 50,000 in year transactions.

2.5 It has also required the transition from the Council's current coding structure held within its old accounting system to the new budget tree coding structure used to set the budget.

2.6 Whilst this required significant focus and resources, it is envisaged that this work will enable a more efficient and streamlined financial monitoring and closedown process. Timetables and key deadlines for the financial close have been circulated to key staff and bringing forward the deadline for producing the accounts will be a further improvement in the management of the Council's finances.

2.7 A breakdown of the February position is shown at Appendix 1 with management commentary at Appendix 2.

Financial implications

3. The entire report deals with financial information and implications are detailed throughout.

Legal implications

4. There no legal implications arising from this report.

Other implications

5. None.

Appendices

Appendix 1**:** Revenue Budget Monitoring 2017/18 – February 2018
Appendix 2: Budget Manager Commentary

Approval

Senior Manager		
Financial	Andy Brown, Section 151 Officer	14 March 2018
Legal	Matt Stokes, Monitoring Officer	14 March 2018

APPENDIX 1 – REVENUE BUDGET MONITORING FEBRUARY 2018

	Full Year Budget £	Budget to Date £	Spend to February £	Variance to Date (under) or overspent £	Forecast Outturn Spend £	Forecast Variance £
CEO Office						
Democratic and Corporate Governance	526,100	482,258	430,110	(52,149)	519,210	(6,890)
Active Scilly	241,300	221,192	83,837	(137,355)	100,000	(141,300)
	767,400	703,450	513,946	(189,504)	619,210	(148,190)
Services to Our Community						
Adult Services & Park House	1,000,000	916,667	845,734	(70,933)	975,500	(24,500)
Young Peoples Services (Children Services & Social Care)	500,700	458,975	218,937	(240,038)	505,731	5,031
Public Health	0	0	(24,649)	(24,649)	-	0
Community Safety	0	0	(12,230)	(12,230)	-	0
	1,500,700	1,375,642	1,027,792	(347,849)	1,481,231	(19,469)
Strategic Development and Finance						
Environmental Health	132,800	121,733	90,927	(30,806)	105,200	(27,600)
Learning and Library	39,200	35,933	73,921	37,988	69,400	30,200
IFCA	14,000	12,833	20,369	7,536	13,000	(1,000)
Capital development and procurement	175,500	160,875	123,376	(37,499)	156,592	(18,908)
Support Services	834,400	764,867	721,573	(43,294)	834,000	(400)
	1,195,900	1,096,242	1,030,167	(66,075)	1,178,192	(17,708)
Infrastructure and Planning						
Natural Resources and Assets	236,200	216,517	331,447	114,930	315,379	79,179
Operational Services	274,700	251,808	157,263	(94,545)	263,000	(11,700)
Planning & Development	181,800	166,650	104,897	(61,753)	179,000	(2,800)
Fire & Rescue	464,800	426,067	339,681	(86,386)	453,000	(11,800)
Waste & Recycling	687,500	630,208	579,994	(50,214)	680,000	(7,500)
	1,845,000	1,691,250	1,513,283	(177,967)	1,890,379	45,379
Directorate Total (A)	**5,309,000**	**4,866,583**	**4,085,188**	**(781,395)**	**5,169,012**	**(139,988)**
Funding (B)	(4,798,800)	(4,598,850)	(4,618,377)	(19,527)	(4,858,800)	(60,000)
Position before Trading Accounts and Reserves (C = A+B)	**510,200**	**267,733**	**(533,189)**	**(800,922)**	**310,212**	**(199,988)**
Other Movements (D)						
Budgeted reserve movements	(284,000)	(260,333)	(260,333)	0	(284,000)	0
Trading Account (Contribution to GF)	(226,200)	(207,350)	(207,350)	0	(226,200)	0
Forecast Out turn Position (E = C+D)	**0**	**0**	**(1,000,872)**	**(800,922)**	**(199,988)**	**(199,988)**

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APPENDIX 2 – BUDGET MANAGER COMMENTARY

CEO Office

The overall forecast position is a forecast spend of £0.619m against a budget of £0.767m; a £0.148m underspend, with the main reason for the underspend being in-year salary savings detailed as follows;

Democratic & Corporate Governance

This Department includes Elections, Licensing, registration & Member Services. Spend to date is £0.430m against a profiled budget of £0.482m. The forecast outturn position is £0.519m against a full year budget of £0.526m. The reason for the small variance is mainly in-year vacancy savings & service efficiencies within Elections.

Active Scilly

Sports Halls, the Swimming Pool & Fitness Centre are included within this service area. Spend to date has been lower than profile and the outturn position is now forecast as an underspend of £0.140m. This underspend is a result of both a freeze on planned refreshment of equipment, which will now be deferred until 2018/19, and the implementation & delivery of the savings agreed by Members.

Service to Our Community

This department includes Public Health, Young People Services & Adult Services (including Park House). The service is currently forecasting a small underspend (£0.020m) in this area despite pressure within specific budget areas.

Adult Services & Park House

This service includes both Adult and Residential Care. The senior manager is currently reporting a small overspend due to both an increase in agency staff costs in year due to staff changes and a reduction in income.

Adult Social Care

This service is currently reporting an under spend in this area which is a result of in-year efficiencies. These savings are being used to offset the pressure within Park House services below.

Park House

Park House has seen a number of pressures in year including both an increase in agency costs (as a result of staff shortages) and a reduction in clients resulting in a reduction in income from both private & NHS funded clients and an uncontrollable increase in costs. These pressures have resulted in forecast overspend. This has potentially become a high risk overspend area for the Council over recent years. The senior manager is aware of these issues and moving forward continues to look at other ways to either generate additional income or reduce costs. In the meantime the manager has used efficiencies within other areas to manage pressures in this area. There is also a potential issue relating to outstanding invoicing due to staffing problems, the manager is aware of this and is working to address the issue.

Young People Services (Children Services & Social Care)

Spend to date is currently lower than profile this is mainly due to timing differences between grant payment & grant receipts. The forecast outturn is a small overspend relating to an in-year staffing pressure within CSC Commissioning of £0.040m coupled with in-year savings within Children Services.

Children services have identified approximately £0.070m of in-year budget & grant income that they plan to roll forward into 2018/19 (within the earmarked Education Reserve) to use exclusively on Children Services. This movement will be subject to agreement from the Section 151 Officer. This transfer has been included in the outturn position above.

Public Health

The service is anticipating no budget issues in this area, spend in this area is currently being offset by grant receipts.

Community Safety

The service anticipates no significant issues with this budget area.

Strategic Development & Finance

The service is anticipating a small forecast under spend in year, this is mainly as a result of a number of in year vacancies within the service; the majority of which are now being filled. There is currently a small pressure around legal fees for the new Smart Island Project, however the service anticipate managing this within existing resources.

Environmental Health

As a result of both in-year vacancy savings (following a delay in the appointment of the Senior Environmental Officer) coupled with one-off purchase of specialist equipment in this area, managers are reporting a small in-year underspend.

Learning & Library

This service is currently reporting a small overspend which is due to a requirement to cover maternity leave within the service, this is an in- year budget pressure.

Inshore Fisheries & Conservation Authority (IFCA)

The service anticipated no significant issues within this service budgets.

Capital Development & Procurement

The year to date underspend is a result of both timing issues around grant payments and efficiency savings. At this stage the service is reporting an under spend of £0.019, this is a slight change to last month as a result of initial legal costs of approximately £0.010 in respect of the Smart Island Project. This forecast also includes £0.012 contribution to capital spend in terms of the Anaerobic Digestion & Gasification Feasibility Appraisal.

Support Services

This area includes a number of year-end adjustments as well as support costs. Although this service area is showing a small year to date underspend, this is a timing issue and the service fully anticipate a balanced position at year end.

Infrastructure & Planning

The service is currently forecasting an overspend of £0.045m. This is a combination of vacancy management coupled with and additional pressure from building works, a reduction in rental income and one off professional fees. The variance between the actual to date and the profile budget is a result of a number of major contract payments yet to be made, which are detailed further in this report.

Natural Resources & Assets

This service area is currently reporting a net overspend of £0.079m as a result of a combination of in-year vacancy management & efficiencies (reduced expenditure), coupled with less than anticipated income from the Porthmellon Enterprise Centre (PEC) where a number of units remain vacant. In addition the unexpected IT improvements & asbestos removal works within both the Town Hall & Wesley Chapel has now also been include within this net overspend position.

Operational Services

The service is currently reporting a small underspend as a result of vacancy management & an anticipated saving against vehicle maintenance and open spaces. The variance to date against profile is a result of a delay in invoices which will rectify itself as part of the year end process. This forecast includes a small contribution to capital in respect of asset replacement.

Planning & Development

Planning & Building Control include both Planning Services & the Local Plan. Spend to date is currently slightly lower than profile and this is due to timing around a number of external contract payments and spend relating to the local plan. The service is confident of a balanced position at year-end; with any underspends relating directly to the Local Plan being rolled into 2018/19 subject to approval from the Section 151 Officer.

Fire & Rescue

The current underspend against profile is a result of timing issues as the majority of training and maintenance is completed during the winter period. During the year the service has identified a one-off budget pressure of £0.027m which the Senior Manager anticipates will be offset against savings made elsewhere in this area. The service is currently reporting a small underspend in this area.

Waste & Recycling

The service is currently reporting a small under spend, despite there being a small underspend to date against profile. There are still a number of uncertainties in this budget area including the new Tresco Residential Waste Collection Service and Kerbside Recycling service both of which have the potential to add pressure to this budget in the future.

Trading Accounts

Trading accounts consist of the Airport, Water & Sewerage & Housing. Any surpluses from these services would normally be transferred to the respective reserve account. However when setting the 2017/18 budgets members agreed £0.266m would be transfer to support the general fund. Services are confident of achieving the budgeted surplus.

There is currently a value for money review underway within Housing Services around housing stock & affordable rents; this is in line with member's views for more affordable & sustainable housing stock