

Governance Committee

Monday, 13th February, 2017
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 3 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Barnes-Andrews (Chair)
Councillor Inglis
Councillor Jordan
Councillor Noon
Councillor O'Neill
Councillor Parnell
Councillor Keogh (Vice-Chair)

Contacts

Service Director, Legal and Governance
Richard Ivory
Tel. 023 8083 2394
Email: richard.ivory@southampton.gov.uk

Senior Democratic Support Officer
Claire Heather
Tel. 023 8083 2412
Email: claire.heather@southampton.gov.uk

PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

[02 Part 2 - Articles](#)

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations

At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton City Council's Priorities:

- .Jobs for local people
- Prevention and early intervention
- Protecting vulnerable people
- Affordable housing
- Services for all
- City pride
- A sustainable Council

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones:- Please switch your mobile telephones to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Fire Procedure – in the event of a fire or other emergency a continuous alarm will sound and you will be advised by Council officers what action to take.

Dates of Meetings: Municipal Year 2016/17

2016	2017
6 June	13 February
25 July	24 April
14 November	
12 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

[03 - Part 3 - Responsibility for Functions](#)

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 **APOLOGIES**

To receive any apologies.

2 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 **STATEMENT FROM THE CHAIR**

4 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)** (Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 12th December 2016 and to deal with any matters arising, attached.

5 **ANNUAL GOVERNANCE STATEMENT** (Pages 3 - 8)

Report of the Chief Financial Officer seeking approval of the assurance gathering process to support the development of the 2016-17 Annual Governance Statement, attached.

6 **PRUDENTIAL LIMITS AND TREASURY MANAGEMENT STRATEGY 2017/18 TO 2020/21** (Pages 9 - 48)

Report of the Council's Chief Financial Officer detailing the context within which the Council's treasury management activity operates and setting out a proposed strategy for 2017/18 to 2020/21, attached.

7 **RISK MANAGEMENT DEVELOPMENT PLAN** (Pages 49 - 82)

Report of the Chief Financial Officer outlining the planned actions in order to further develop and embed risk management as a key business process, attached.

8 **EXTERNAL AUDIT - AUDIT PLAN** (Pages 83 - 106)

Report of External Auditor detailing the External Audit Plan for year ending 31st March 2017, attached.

Friday, 3 February 2017

Service Director, Legal and Governance

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GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 12 DECEMBER 2016

Present: Councillors Barnes-Andrews (Chair), Inglis, Jordan, Noon, O'Neill and Keogh (Vice-Chair)

Apologies: Councillors Parnell

25. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 14th November 2016 be approved and signed as a correct record.

Matters Arising – Minute 18 – Southampton City Council Complaints Report 2015/16
The Chair reported that he had met with the Customer Relations Manager to progress how a summary of Stage 1 Complaints could be incorporated into the 2016/17 report and would be meeting again in February 2017 to progress further.

26. **CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015-16**

The Committee received and noted the External Auditor's Annual Report on the Certification of Claims and Returns 2015/16 as detailed in the Appendix of the report.

The Committee noted that local authorities claimed large sums of public money in grants and subsidies from central government and other grant paying bodies and were required to complete returns providing financial information to government departments.

The Committee requested confirmation that the issues previously identified in relation to the PARIS system and payment of benefits was not impacting upon HRA Rent Rebates and any associated issues which Helen Thompson from Ernst & Young would feed back outside of the meeting.

27. **EXTERNAL AUDIT PROGRESS REPORT**

The Committee received and noted the external audit progress report against the Council's 2015/16 audit plan as detailed in the Appendix of the report. The Committee also noted the external auditors initial plans for the 2016/17 audit.

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Agenda Item 5

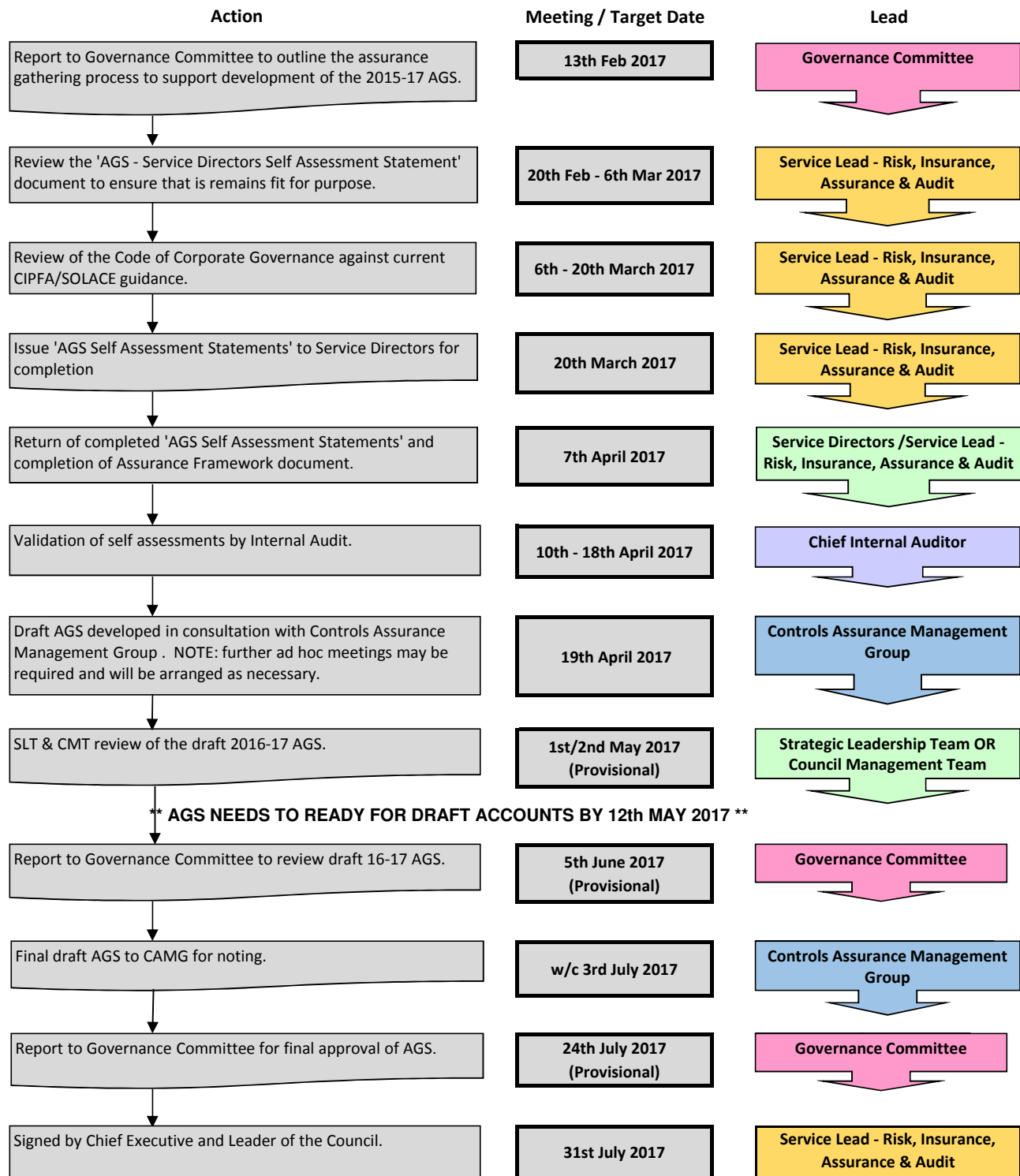
DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	ANNUAL GOVERNANCE STATEMENT		
DATE OF DECISION:	13 th FEBRARY 2017		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	mel.creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None			
BRIEF SUMMARY			
In accordance with the Accounts and Audit Regulations the Council is required to develop and publish an Annual Governance Statement ('AGS'). The AGS reports on the extent to which the Council has complied with its Code of Corporate Governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.			
RECOMMENDATIONS:			
	(i)	To note and approve the assurance gathering process to support the development of the 2016-17 Annual Governance Statement (Appendix 1);	
REASONS FOR REPORT RECOMMENDATIONS			
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	No alternative options have been considered		
DETAIL (Including consultation carried out)			
3.	Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.		
4.	The purpose of the AGS, which is published with the statement of accounts, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.		

5.	The AGS is produced following a review of the Council's governance arrangements. The review requires the systems and processes that comprise the Council's corporate governance arrangements to be brought together and reviewed.
6.	In May 2016 CIPFA/Solace published a new 'Delivering Good Governance in Local Government: Framework' which applies to annual governance statements prepared for the financial year 2016/17 onwards. The format and content of the new Framework is broadly similar to its predecessor with guidance notes intended to assist authorities in reviewing and testing their governance arrangements against the principles for good governance. The guidance notes do however state that "it is not intended that these guidance notes are in any way prescriptive – all authorities are encouraged to consider carefully the content of the Framework and to use it in a way that best reflects their structure, type, functions and size".
7.	The format and content of the 'assurance gathering process' has been reviewed and updated in order to take account of the new CIPFA/Solace guidance. The overall process does however remain largely unchanged from the previous year on the basis that it is considered to be aligned with good practice.
8.	The key elements of the assurance gathering process comprise completion of the updated 'Assurance Framework' document together with 'Annual Governance - Self Assessment Statement' that is required to be completed by each Service Director. Both the documents cover the key processes and systems that comprise the Council's governance arrangements and are intended to identify any areas where improvement or further development is required.
9.	It should also be noted that the council's external auditors, Ernst & Young, are required to "consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance". In their 'Annual Audit Letter for the year ended 31 March 2016' they state that "We completed this work and did not identify any areas of concern".
10.	<p>The new guidance CIPFA/Solace guidance confirms that authorities should nominate an individual or group of individuals within the authority who have appropriate knowledge and expertise and levels of seniority to:</p> <ul style="list-style-type: none"> • Consider the extent to which the authority complies with the principles of good governance set out in the Framework; • Identify systems, processes and documentation that provide evidence of compliance; • Identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified; • Identify issues that have not been addressed in the authority and consider how they should be addressed; and • Identify the individuals who would be responsible for undertaking the actions that are required.

11.	The Council has In place a 'Controls Assurance Management Group' (comprising the Section 151 Officer, Chair of the Governance Committee, Monitoring Officer, Chief Strategy Officer and Chief Internal Auditor) which is responsible for evaluating the assurances and supporting evidence provided, and for drafting the AGS.	
12.	The draft AGS will be presented to the Governance Committee for review and approval prior to being forwarded to the Chief Executive and Leader of the Council for signing.	
RESOURCE IMPLICATIONS		
<u>Capital/Revenue</u>		
13.	N/A	
<u>Property/Other</u>		
14.	N/A	
LEGAL IMPLICATIONS		
<u>Statutory power to undertake proposals in the report:</u>		
15.	The Accounts and Audit (England) Regulations 2015 which require that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an AGS for approval by a committee or members of the authority. The AGS must be approved in advance of the relevant authority approving the statement of accounts.	
<u>Other Legal Implications:</u>		
16.	None	
POLICY FRAMEWORK IMPLICATIONS		
17.	None	
KEY DECISION?		No
WARDS/COMMUNITIES AFFECTED:		N/A
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	AGS 2016-17 : Process and timelines	
Documents In Members' Rooms		
1.	N/A	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact		No

Assessment (PIA) to be carried out.		
Other Background Documents Equality Impact Assessment and Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.		

Annual Governance Statement 2016/17 - Process and timelines



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Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2017/18 TO 2020/21		
DATE OF DECISION:	13 FEBRUARY 2017 15 FEBRUARY 2017		
REPORT OF:	SERVICE DIRECTOR FINANCE AND COMMERCIALISATION (S151)		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sue Poynter	Tel: 023 80 4153
	E-mail:	sue.poynter@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80 4897
	E-mail:	mel.creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			
BRIEF SUMMARY			
<p>With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.</p>			
<p>This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the numerous risks related to this activity.</p>			
<p>The core elements of the 2017/18 strategy are :</p> <ul style="list-style-type: none"> • To continue to make use of short term variable rate debt to take advantage of the current market conditions of low interest rates. • To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk. • To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio. • To invest surplus funds prudently, the Council's priorities being: <ul style="list-style-type: none"> - Security of invested capital - Liquidity of invested capital - An optimum yield which is commensurate with security and liquidity. • To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk 			

boundaries.		
<ul style="list-style-type: none"> To approve the 2017 Minimum Revenue Provision (MRP) Statement 		
RECOMMENDATIONS:		
GOVERNANCE COMMITTEE		
It is recommended that Governance Committee:		
	(i)	Endorse the Treasury Management (TM) Strategy for 2017/18 as outlined in the report.
	(ii)	Endorse the 2017 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 76 to 84.
	(iii)	Note that the indicators as reported have been set on the assumption that the recommendations in the Capital update report will be approved by Council on 15 February 2017. Should the recommendations change, the Prudential Indicators may have to be recalculated.
	(iv)	Note that due to the timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.
COUNCIL		
It is recommended that Council:		
	(i)	Approve the Council's Treasury Management (TM) Strategy and Prudential Indicators for 2017/18, 2018/19 and 2019/20, as detailed within the report.
	(ii)	Approve the 2016 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 76 to 84 and to delegate authority to the Chief Financial Officer (CFO) to approve any changes necessary that aid good financial management whilst maintaining a prudent approach.
	(iii)	Approve the Annual Investment Strategy as detailed in paragraphs 40 to 58.
	(iv)	Note that at the time of writing this report the recommendations in the Capital update report, submitted to Council on the 15 February 2017, have not yet been approved. The indicators in the report are based on the assumption that they will be approved, but should the recommendations change, the Prudential Indicators may have to be recalculated.
	(v)	Continue to delegate authority to the Chief Financial Officer (CFO) to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management. For example, agreeing an increase in the percentage for variable rate borrowing to take advantage of the depressed market for short term rates. Any amendments will be reported as part of quarterly financial and performance monitoring and in revisions to the TM Strategy.
REASONS FOR REPORT RECOMMENDATIONS		

1.	<p>In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Authority, each year the Council must set certain borrowing limits and approve TM Strategy which includes:</p> <ul style="list-style-type: none"> • Treasury Management Strategy for 2017/18: <ul style="list-style-type: none"> ○ Borrowing – Paragraphs 27 to 38, ○ Debt Rescheduling – Paragraph 39 ○ Investments – Paragraphs 40 to 58 • Treasury Management Indicators – Paragraphs 59-75 • MRP Statement – Paragraphs 76 to 84 • Other Prudential Indicators – Paragraphs 85 to 107
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report being taken at Full Council on 15 February 2017.
DETAIL (Including consultation carried out)	
CONSULTATION	
3.	The proposed Capital Update report on which this report is based has been subject to separate consultation processes.
BACKGROUND	
4.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
5.	As per the requirements of the Prudential code, the Authority adopted the CIPFA Treasury Management Code at its Council meeting on 19 February 2003 and all its subsequent updates. The latest one being <i>Treasury Management in the Public Services: Code of Practice 2011 Edition</i> in February 2012.
6.	In addition, the Department for Communities and Local Government (CLG) issued revised <i>Guidance on Local Authority Investments</i> in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
7.	This report fulfils the Authority’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA code and the CLG guidance.
8.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council’s treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
9.	The purpose of this TMSS is to allow Council to approve:

	<ul style="list-style-type: none"> • Treasury Management Strategy for 2017/18 • Annual Investment Strategy 2017/18 • Prudential Indicators for 2016/17, 2018/19 and 2019/20 • 2017 MRP Statement 																		
10.	The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the Prudential Indicators and the current and projected Treasury position (Appendix 1). The outlook for interest rates (Appendix 3) has also been taken into account in developing this strategy																		
11.	The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in TM, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To aid the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise the Council on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.																		
12.	Some alternative strategies, with their financial and risk management implications, are listed below.																		
	<table border="1"> <thead> <tr> <th>Options</th> <th>Impact on income and expenditure</th> <th>Impact on risk management</th> </tr> </thead> <tbody> <tr> <td>Invest in a narrower range of counterparties and/or for shorter times</td> <td>Interest income will be lower</td> <td>Lower chance of losses from credit related defaults, but any such losses may be greater</td> </tr> <tr> <td>Invest in a wider range of counterparties and/or for longer times</td> <td>Interest income will be higher</td> <td>Increased risk of losses from credit related defaults, but any such losses will be smaller</td> </tr> <tr> <td>Borrow additional sums at long-term fixed interest rates</td> <td>Debt interest costs will rise; this is unlikely to be offset by higher investment income</td> <td>Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain</td> </tr> <tr> <td>Borrow short-term or variable loans instead of long-term fixed rates</td> <td>Debt interest costs will initially be lower</td> <td>Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain</td> </tr> <tr> <td>Reduce level of borrowing</td> <td>Saving on debt interest is likely to exceed lost investment income</td> <td>Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain</td> </tr> </tbody> </table>	Options	Impact on income and expenditure	Impact on risk management	Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater	Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will 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 will 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 will 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 will be less certain
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	<u>Economic Background</u>																		
13.	The major external influence on the Authority's 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 Union also means leaving the single market. Negotiations are expected to start once																		

	the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.
14.	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.
15.	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.
16.	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.
	<u>Credit Outlook</u>
17.	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.
18.	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 Authority; returns from cash deposits however continue to fall.
	<u>Interest Rate Forecast</u>
19.	The Authority's treasury advisor, Arlingclose, central case is for 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 but, although a low probability, 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.
20.	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.																																																												
21.	A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 3																																																												
22.	For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.25% for short term and 4.50% for long term, and that new long-term loans will be borrowed at an average rate of 2.25%.																																																												
BALANCE SHEET SUMMARY AND FORECAST																																																													
23.	The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with balances and useable reserves, are the core drivers of TM Activity. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.																																																												
24.	At 31/12/2016 the Authority held £340M of debt (£262M borrowing plus £78M other long term liabilities) and £75M investments which is set out in further detail in Appendix 1.																																																												
25.	Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.																																																												
26.	CIPFA's <i>Prudential Code for Capital Finance in Local Authorities</i> recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority will comply with this recommendation and shows the impact of the capital programme and maturing debt if no new borrowing was taken.																																																												
<p>Table 1: Balance sheet Summary and Forecast</p> <table border="1"> <thead> <tr> <th></th> <th>31/03/2017 Forecast £M</th> <th>31/03/2018 Forecast £M</th> <th>31/03/2019 Forecast £M</th> <th>31/03/2020 Forecast £M</th> <th>31/03/2021 Forecast £M</th> </tr> </thead> <tbody> <tr> <td>General Fund CFR (<i>Table 10</i>)</td> <td>280.80</td> <td>336.38</td> <td>373.54</td> <td>377.90</td> <td>371.78</td> </tr> <tr> <td>Housing CFR (<i>Table 16</i>)</td> <td>155.00</td> <td>171.77</td> <td>193.07</td> <td>193.13</td> <td>184.68</td> </tr> <tr> <td>Total Opening CFR</td> <td>435.80</td> <td>508.14</td> <td>566.61</td> <td>571.03</td> <td>556.46</td> </tr> <tr> <td>Less Other Long Term Liabilities*</td> <td>(77.18)</td> <td>(74.97)</td> <td>(72.51)</td> <td>(69.13)</td> <td>(65.60)</td> </tr> <tr> <td>Borrowing CFR</td> <td>358.62</td> <td>433.17</td> <td>494.10</td> <td>501.89</td> <td>490.86</td> </tr> <tr> <td>Less External borrowing</td> <td>(259.65)</td> <td>(258.15)</td> <td>(246.64)</td> <td>(210.67)</td> <td>(190.95)</td> </tr> <tr> <td>Internal borrowing</td> <td>98.96</td> <td>175.02</td> <td>247.45</td> <td>291.23</td> <td>299.91</td> </tr> <tr> <td>Less Usable Reserves</td> <td>(74.30)</td> <td>(73.30)</td> <td>(72.30)</td> <td>(72.30)</td> <td>(72.30)</td> </tr> <tr> <td>New Borrowing Requirement</td> <td>24.66</td> <td>101.72</td> <td>175.15</td> <td>218.93</td> <td>227.61</td> </tr> </tbody> </table> <p>* finance leases, PFI liabilities and transferred debt which form part of the Authority's total debt</p>			31/03/2017 Forecast £M	31/03/2018 Forecast £M	31/03/2019 Forecast £M	31/03/2020 Forecast £M	31/03/2021 Forecast £M	General Fund CFR (<i>Table 10</i>)	280.80	336.38	373.54	377.90	371.78	Housing CFR (<i>Table 16</i>)	155.00	171.77	193.07	193.13	184.68	Total Opening CFR	435.80	508.14	566.61	571.03	556.46	Less Other Long Term Liabilities*	(77.18)	(74.97)	(72.51)	(69.13)	(65.60)	Borrowing CFR	358.62	433.17	494.10	501.89	490.86	Less External borrowing	(259.65)	(258.15)	(246.64)	(210.67)	(190.95)	Internal borrowing	98.96	175.02	247.45	291.23	299.91	Less Usable Reserves	(74.30)	(73.30)	(72.30)	(72.30)	(72.30)	New Borrowing Requirement	24.66	101.72	175.15	218.93	227.61
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27.	The long term borrowing forecast in Appendix 2 (table 4) shows that the																																																												

	<p>Authority expects to borrow up to £86.7M in 2016/17 and £71.8M in 2017/18, to fund the capital programme and to replace maturing debt, bringing the estimated total loan debt to £376.3M at the 31st March 2018.</p> <p>If it was cost effective the Authority could also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing</p>
	<u>Objectives</u>
28.	<p>The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.</p>
	<u>Strategy</u>
29.	<p>Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.</p>
30.	<p>Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates are likely to remain, at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources and will look to borrow short-term loans instead</p>
31.	<p>By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.</p>
32.	<p>Alternatively, the Authority may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.</p> <p>In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.</p>
	<u>Sources</u>
33.	<p>The approved sources of long-term and short-term borrowing are:</p>

	<ul style="list-style-type: none"> • Public Works Loan Board (PWLB) and any successor body • any institution approved for investments (see below) • any other bank or building society authorised to operate in the UK • UK public and private sector pension funds (except HCC Pension Fund) • capital market bond investors • UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
34.	<p>In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:</p> <ul style="list-style-type: none"> • operating and finance leases • hire purchase • Private Finance Initiative • sale and leaseback
35.	<p>The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans, bank loans and the Municipal Bond Agency (see paragraph below) which may be available at more favourable rates.</p>
36.	<p>UK Municipal Bonds Agency plc (MBA) was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any initial decision to borrow from the Agency will therefore be the subject of a separate report to both Governance Committee and Full Council. A report setting out in full the details, options and risks of the MBA was considered by full Council on 10 February 2016.</p>
	<p><u>Lender's Option Borrower's Option Loans (LOBOs)</u></p>
37.	<p>The Authority holds £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2017/18 and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.</p>
	<p><u>Short Term and Variable Rates</u></p>
38.	<p>Included within the PWLB portfolio is £35M of variable rate Loans, which are currently averaging 0.67% and are helping to keep the overall cost of borrowing down. Whilst in current climate of low interest rates this remains a sound strategy, these loans leave the authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators (paragraph 61), the Council review these regularly and if appropriate will switch into fixed rate loans.</p>
	<p><u>Debt Rescheduling</u></p>

39.	The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.
	INVESTMENT STRATEGY
40.	The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the financial year the Authority's investment balances have ranged between £62M and £109M and are currently £75M. Projected balances indicate that on present levels of spend balances will be lower than last year, but this will be dependent on any borrowing decisions taken. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk for example a covered bond.
	<u>Objectives</u>
41.	Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the of incurring losses from defaults and the risk receiving unsuitably low investment income.
	<u>Negative Interest Rates</u>
42.	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.
	<u>Strategy</u>
43.	Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to continue to diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for the estimated £40M that is available for longer-term investment. Appendix 1 shows the makeup of the Authority's current investments.
	<u>Approved Counterparties</u>
44.	The Authority may invest its surplus funds with any of the following counterparty types, subject to the cash limits (per counterparty) and time limits detailed in Appendix 4.
45.	Credit Rating: Investment decisions are informed by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However,

	investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
46.	Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.
47.	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.
48.	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.
49.	Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.
50.	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.
51.	<p>Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity 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.</p> <p>Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.</p> <p>As part of the Authority strategy to generate income to help meet the budget gap, up to £20M which has been allocated within the capital programme for the Property Investment Fund will be invested these funds under the guidance of</p>

	our financial advisors.
52.	The Chief Financial Officer (CFO), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.
	<u>Risk Assessment and Credit Ratings</u>
53.	<p>Credit ratings are obtained and monitored by the Authority’s treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:</p> <ul style="list-style-type: none"> • 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. <p>Where a credit rating agency announces that a 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.</p>
	<u>Other Information on the Security of Investments</u>
54.	The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
55.	When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or invested in government treasury bills for example or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
	<u>Specified Investments</u>
56.	The CLG Guidance defines specified investments as those: <ul style="list-style-type: none"> • denominated in pound sterling,

	<ul style="list-style-type: none"> • due to be repaid within 12 months of arrangement, • not defined as capital expenditure by legislation, and • invested with one of: <ul style="list-style-type: none"> ○ the UK Government, ○ a UK local authority, parish council or community council, or ○ a body or investment scheme of “high credit quality”. <p>The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.</p>												
<u>Non-Specified Investments</u>													
57.	Any investment not meeting the definition of a specified investment is classed as non-specified. Limits on non-specified investments are shown in Table 2 below. These have been increased from the previous strategy to allow for further investments in the CCLA and REITS as detailed in paragraph 51 above.												
	<p>Table 2 – Non Specified Investment Limits</p> <table border="1" data-bbox="328 898 1370 1261"> <thead> <tr> <th data-bbox="328 898 1181 992"></th> <th data-bbox="1181 898 1370 992" style="text-align: center;">Cash Limit</th> </tr> </thead> <tbody> <tr> <td data-bbox="328 992 1181 1043">Total long-term investments</td> <td data-bbox="1181 992 1370 1043" style="text-align: center;">£80M</td> </tr> <tr> <td data-bbox="328 1043 1181 1095">Total investments without credit ratings or rated below A-</td> <td data-bbox="1181 1043 1370 1095" style="text-align: center;">£50M</td> </tr> <tr> <td data-bbox="328 1095 1181 1146">Total investments in foreign countries rated below AA+</td> <td data-bbox="1181 1095 1370 1146" style="text-align: center;">£5M</td> </tr> <tr> <td data-bbox="328 1146 1181 1198"></td> <td data-bbox="1181 1146 1370 1198"></td> </tr> <tr> <td data-bbox="328 1198 1181 1261">Total non-specified investments</td> <td data-bbox="1181 1198 1370 1261" style="text-align: center;">£135M</td> </tr> </tbody> </table>		Cash Limit	Total long-term investments	£80M	Total investments without credit ratings or rated below A-	£50M	Total investments in foreign countries rated below AA+	£5M			Total non-specified investments	£135M
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58.	<p>Investment Limits: The Authority’s revenue reserves and balances available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £64.3M at 31st March 2017. In order that there is no immediate pressure on available reserves in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and property funds) will be £10M. 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 in table 3 below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Appendix 3 shows the current working limits in more detail.</p>												

Table 3 –Investment Limits	
	Cash limit
Any single organisation, except the UK Central Government and property funds (subject to specific advice)	£10M each*
UK Central Government	unlimited
Any group of organisations under the same ownership	£10M per group*
Any group of pooled funds under the same management	25% per manager unless under specific advice
Negotiable instruments held in a broker's nominee account	£70M per broker
Foreign countries	£10M per country
Registered Providers	£5M in total
Unsecured investments with Building Societies	£5M in total
Loans to unrated corporates	£0.5M in total
Money Market Funds**	£10M* per fund and no more than 0.50% of any investments fund in total for non-government funds
<p><i>*This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.</i></p> <p><i>**We would not normally invest more than 50% of our overall investment portfolio in MMF on the advice of our advisors, however as part of our revised strategy to reduce short term investments and move into longer term investments, there will be occasions as bonds mature when this limit is exceeded. This advice is with regards to cash flow risk, however we feel this is migrated by spreading over a number of funds and not just the highest yielding ones and having funds in other instant access accounts. In addition money can be borrowed short term from the market on the day.</i></p>	
<u>Liquidity Management</u>	
<p>The Authority undertakes high level cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.</p>	
<u>TREASURY MANAGEMENT INDICATORS</u>	
59.	The Authority measures and manages its exposure to treasury management risks using the following indicators.

	<u>Liquidity</u>																								
60.	The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and has set a £10M minimum threshold on cash available in instant access accounts, if balances were to fall below this limit we would consider taking short term loans which are available without given prior notice and at completeive rates.																								
	<u>Interest Rate Exposure</u>																								
61.	This indicator is set to control the Authority’s exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.																								
	Table 4 – Upper Limits for Fixed and Variable Interest Rate Exposure																								
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	Existing Level 31 December 2014	2014/15 Approved	2016/17 Estimate	2018/19 Estimate	2017/18 Estimate																				
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Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100																				
Upper Limit for Variable Interest Rate Exposure	50	50	50	50	50																				
	<u>Maturity Structure of Fixed Rate borrowing</u>																								
62.	This indicator is set to control the authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing as set out in Table 5 below:																								
	<table border="1"> <thead> <tr> <th></th> <th>Lower Limit %</th> <th>Upper Limit %</th> </tr> </thead> <tbody> <tr> <td>Under 12 Months</td> <td>0</td> <td>45</td> </tr> <tr> <td>12 months and within 24 months</td> <td>0</td> <td>45</td> </tr> <tr> <td>24 months and within 5 years</td> <td>0</td> <td>50</td> </tr> <tr> <td>5 years and within 10 years</td> <td>0</td> <td>75</td> </tr> <tr> <td>10 years and above</td> <td>0</td> <td>75</td> </tr> </tbody> </table>		Lower Limit %	Upper Limit %	Under 12 Months	0	45	12 months and within 24 months	0	45	24 months and within 5 years	0	50	5 years and within 10 years	0	75	10 years and above	0	75						
	Lower Limit %	Upper Limit %																							
Under 12 Months	0	45																							
12 months and within 24 months	0	45																							
24 months and within 5 years	0	50																							
5 years and within 10 years	0	75																							
10 years and above	0	75																							
63.	Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. As all LOBO are now in their call options they have been included as under 12 months within this indicator.																								

64.	<p>Table 6 below details the level of our current fixed rate debt and shows that all debt is within existing limits.</p> <table border="1"> <thead> <tr> <th></th> <th>Lower Limit</th> <th>Upper Limit</th> <th>Actual Fixed Debt as at 31/12/2016</th> <th>Average Fixed Rate as at 31/12/2016</th> <th>% of Fixed Rate as at 31/12/2016</th> <th>Compliance with set Limits?</th> </tr> <tr> <th></th> <th>%</th> <th>%</th> <th>£M</th> <th>%</th> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>Under 12 months</td> <td>0</td> <td>45</td> <td>39.4</td> <td>3.10</td> <td>17.29</td> <td>Yes</td> </tr> <tr> <td>12 months and within 24 months</td> <td>0</td> <td>45</td> <td></td> <td></td> <td></td> <td>Yes</td> </tr> <tr> <td>24 months and within 5 years</td> <td>0</td> <td>50</td> <td>49.5</td> <td>3.23</td> <td>21.72</td> <td>Yes</td> </tr> <tr> <td>5 years and within 10 years</td> <td>0</td> <td>75</td> <td></td> <td></td> <td></td> <td>Yes</td> </tr> <tr> <td>20 years and within 30 years</td> <td>0</td> <td>75</td> <td>15.0</td> <td>4.65</td> <td>6.59</td> <td>Yes</td> </tr> <tr> <td>30 years and within 40 years</td> <td>0</td> <td>75</td> <td>77.9</td> <td>3.83</td> <td>34.22</td> <td>Yes</td> </tr> <tr> <td>40 years and within 50 years</td> <td>0</td> <td>75</td> <td>45.9</td> <td>3.54</td> <td>20.18</td> <td>Yes</td> </tr> <tr> <td></td> <td></td> <td></td> <td>227.7</td> <td>3.57</td> <td>100</td> <td></td> </tr> </tbody> </table>		Lower Limit	Upper Limit	Actual Fixed Debt as at 31/12/2016	Average Fixed Rate as at 31/12/2016	% of Fixed Rate as at 31/12/2016	Compliance with set Limits?		%	%	£M	%			Under 12 months	0	45	39.4	3.10	17.29	Yes	12 months and within 24 months	0	45				Yes	24 months and within 5 years	0	50	49.5	3.23	21.72	Yes	5 years and within 10 years	0	75				Yes	20 years and within 30 years	0	75	15.0	4.65	6.59	Yes	30 years and within 40 years	0	75	77.9	3.83	34.22	Yes	40 years and within 50 years	0	75	45.9	3.54	20.18	Yes				227.7	3.57	100	
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65.	The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end is shown in Table 7 .																																																																						
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66.	There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.																																																																						
	<u>Policy on Use of Financial Derivates</u>																																																																						
67.	The general power of competence in Section 1 of the <i>Localism Act 2011</i> 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).																																																																						
68.	The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded																																																																						

	derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
69.	Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
	<u>Housing Revenue Account Self-Financing</u>
70.	On 1st April 2012, the Authority notionally split each of its existing long-term 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.
71.	Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance. This balance will be measured and interest transferred between the General Fund and HRA at an agreed rate. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the authority's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards. The rate will be based on investments with the Debt Management Office. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.
	<u>Training</u>
72.	CIPFA's Code of Practice requires the CFO to ensure that all Members tasked with TM responsibilities, including scrutiny of the TM function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Member training was last undertaken on the 2 November 2016. The Council adopts a continuous performance and development programme to ensure staff are regularly appraised and any training needs addressed. Relevant staff also attend regular training sessions, seminars and workshops which ensure their knowledge is up to date. Details of training received are maintained as part of the performance and development process.
	<u>Treasury Management Advisors</u>
73.	The CLG's Guidance on local government investments recommend that the Investment Strategy should state: Whether and, if so, how the Authority uses external contractors offering information, advice or assistance relating to investment and How the quality of any such service is controlled. The Council has a contract in place with Arlingclose Limited as treasury advisory service and receives the following services: <ul style="list-style-type: none"> • Credit advice • Investment advice

	<ul style="list-style-type: none"> • Technical advice • Economic & interest rate forecasts • Workshops and training events • HRA support • Ad hoc advice <p>The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically. It should also be noted that decisions are taken independently by the CFO taking into account this advice and other internal and external factors.</p>
	<u>Investment of Money Borrowed in Advance of Need</u>
74.	The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit for the period. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.
	<u>FINANCIAL IMPLICATIONS</u>
75.	The budget for long term debt interest paid in 2017/18 is £9.9M based on an average debt portfolio of £345.8M and an average interest rate of 2.87%. Investment income for 2017/18 is budgeted at £1.4M based on an average portfolio of £50M at an average of 2.80%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondently different.
	<u>2017/18 MINIMUM REVENUE PROVISION (MRP) STATEMENT</u>
76.	Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.
77.	The CLG Guidance requires the Authority to approve an Annual MRP Statement each year. We have undertaken a prudency review of borrowing prior to the prudential regime and have agreed to charge the regulatory method for borrowing prior to the prudential regime (over a 50 year life) and the asset life method for prudential borrowing.
78.	The exception to this is investment properties acquired as part of the Property Investment Fund which have been purchased with a view to generating long term rental income streams to support the delivery of Council services in the future and reduce dependence on Central Government funding, in this case we have adopted the depreciation method. As investment properties these assets are valued each year and any downward

	movement in the value for the year (i.e. depreciation) will be spread over the remaining life of the asset as a charge to revenue in lieu of MRP.																																																																	
79.	We will continue to review MRP and it is proposed that delegated powers should be given to the CFO to change the proposed methods to aid good financial management whilst maintaining a prudent approach Any changes to the original MRP Statement during the year will be reported as part of quarterly financial and performance monitoring and in revisions to the TM strategy as part of the year end and midyear reviews.																																																																	
80.	Following the HRA self-financing settlement, HRA debt increased from £100M to £174M with a borrowing cap of £200M. There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited at the split and provision has been made within its business plan to show that it can pay down the remaining debt over the life of the 30 year business plan.																																																																	
81.	MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.																																																																	
82.	Capital expenditure incurred during 2017/18 and funded from borrowing will not be subject to a MRP charge until 2018/19																																																																	
83.	Based on the Authority's latest estimate of its Capital Financing Requirement on 31 March 2017 the budget for MRP has been set on the assumption that we will be using the regulatory method for borrowing prior to the prudential regime (over the remainder of a 50 year life) and using the asset life method for prudential borrowing where it applies.																																																																	
84.	The current and estimated levels of MRP and CFR are shown in Table 8 below:																																																																	
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	<u>MONITORING AND REPORTING ON THE ANNUAL TREASURY OUTTURN AND OTHER PRUDENTIAL INDICATORS</u>																																																																	

85.	The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows: (a) A mid-year review against the strategy approved for the year. (b) An outturn report on its treasury activity, no later than 30 September after the financial year end.																																																								
86.	In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.																																																								
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87.	The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.																																																								
<u>Gross Debt and the Capital Financing Requirement</u>																																																									
88.	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 local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This view takes into account current commitments, existing plans and the proposals in the approved budget.																																																								
89.	There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.																																																								
90.	The estimated gross debt and capital financing requirement is shown in the tables below: Table 9 – Gross Debt																																																								
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Table 10 – Movement in CFR																																																									

	31/03/2016 Actual £M	31/03/2017 Forecast £M	31/03/2018 Forecast £M	31/03/2019 Forecast £M	31/03/2020 Forecast £M	31/03/2021 Forecast £M
Balance Brought forward	274.10	280.80	336.38	373.54	377.90	371.78
New Borrowing	9.70	58.47	39.37	12.06	3.25	0.50
MRP	(4.50)	(5.00)	(5.40)	(5.85)	(5.99)	(5.98)
Appropriations (to) from HRA	(0.60)					
Movement in Other Liabilities	(2.40)	(2.90)	(2.21)	(2.46)	(3.38)	(3.54)
MRP Holiday	4.50	5.00	5.40	0.62	0.00	0.00
Total General Fund Debt	280.80	336.38	373.54	377.90	371.78	362.77
HRA (see table 16 for breakdown)	155.00	171.77	193.07	193.13	184.68	185.17
Total CFR	435.80	508.14	566.61	571.03	556.46	547.94

Estimates of Capital Expenditure

91. The Authority's planned capital expenditure and financing is summarised below, further detail is provided in the General Fund and HRA Capital programme report submitted elsewhere on the agenda.

92. **Table 11 – Capital Expenditure**

Capital Expenditure and Financing	Revised 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M	Forecast 2019/20 £M	Forecast 2020/21 £M
General Fund	94.83	78.11	23.96	5.64	2.92
HRA	58.44	59.01	42.27	32.85	41.05
Total Expenditure	153.27	137.12	66.23	38.49	43.97
Capital receipts	10.07	10.79	8.44	2.33	1.38
Capital Grants	27.02	22.55	6.78	2.12	2.12
Contributions	5.80	4.31	2.13	0.00	0.00
Other Council Resources	19.89	19.27	19.45	19.78	20.19
Major Repairs Allowance	9.65	13.93	11.39	1.52	9.74
Total Financing	72.43	70.85	48.19	25.75	33.43
Council Resources - borrowing	80.83	66.27	18.04	12.74	10.54
Total Funding	80.83	66.27	18.04	12.74	10.54
Total Financing & Funding	153.26	137.12	66.23	38.49	43.97

Ratio of Financing Costs to Net Revenue Stream

93. 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 borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme.

94. This indicator is not so relevant for the HRA, especially since the introduction of self-financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP, which is the main contributor for the increase in 2019/20 and 2020/21. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Table 12 – Ratio of Financing Costs to Net Revenue Stream

95.	Ratio of Financing Costs to Net Revenue Stream	2015/16 Actual %	2016/17 Forecast %	2018/19 Estimate %	2017/18 Estimate %	2019/20 Estimate %	2020/21 Estimate %
	General Fund	5.80%	5.86%	6.00%	6.69%	6.98%	5.59%
	HRA	14.07%	14.10%	14.98%	15.69%	31.44%	20.35%
	Total	9.18%	9.29%	9.26%	10.02%	14.94%	10.22%
<u>Incremental Impact of Capital Investment Decisions</u>							
96.	<p>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 (i.e. Interest and MRP) of the current approved capital programme with an equivalent calculation arising from the proposed programme. The incremental impact of capital investments decisions are shown below. These figures exclude any borrowing taken for Invest to Save schemes, as borrowing costs will be offset by income generation.</p>						
Table 13– Incremental Impact of Capital Investment Decisions							
97.	Incremental Impact of Capital Investment Decisions	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	
		£	£	£	£	£	
	Increase / (Decrease) per average number of equivalent band D properties for Council Tax purposes	7.44	5.40	24.88	31.15	9.68	
	Increase in Average Weekly Housing Rents	58.89	59.01	42.27	32.85	41.05	
98.	<p>It should be noted that these indicators are for illustrative purposes only and show the amount per equivalent band D properties that this change would equate to since the last capital update published in September.</p>						
99.	<p>As per the General Fund these indicators are illustrative as HRA rent levels are currently set under the Government’s rent restructuring formula, which is independent of the level of capital investment and borrowing. The calculation of the indicator ignores this factor.</p>						
<u>Authorised Limit and Operational Boundary for External Debt</u>							
100.	<p>The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.</p>						
101.	<p>The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. 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</p>						

	<p>liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.</p> <p>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, for example a complete debt restructure which requires monies to be borrowed in advance of repayment of existing debt. 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).</p>																																									
	Table 14 – Authorised Limit for External Debt																																									
102.	<table border="1"> <thead> <tr> <th>Authorised Limit for External Debt</th> <th>Actual 31 December 2016</th> <th>2016/17 Approved</th> <th>2017/18 Estimate</th> <th>2018/19 Estimate</th> <th>2019/20 Estimate</th> <th>2020/21 Estimate</th> </tr> <tr> <td></td> <td>£M</td> <td>£M</td> <td>£M</td> <td>£M</td> <td>£M</td> <td>£M</td> </tr> </thead> <tbody> <tr> <td>Borrowing</td> <td>263</td> <td>651</td> <td>817</td> <td>821</td> <td>846</td> <td>862</td> </tr> <tr> <td>Other Long-term Liabilities</td> <td>78</td> <td>87</td> <td>81</td> <td>79</td> <td>77</td> <td>73</td> </tr> <tr> <td>Total</td> <td>341</td> <td>738</td> <td>898</td> <td>900</td> <td>923</td> <td>935</td> </tr> </tbody> </table>	Authorised Limit for External Debt	Actual 31 December 2016	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate		£M	£M	£M	£M	£M	£M	Borrowing	263	651	817	821	846	862	Other Long-term Liabilities	78	87	81	79	77	73	Total	341	738	898	900	923	935						
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103.	<p>The Operational Boundary is linked directly to the Council's estimates of the CFR and estimates of other day to day 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</p>																																									
	Table 15–Operational Boundary for External Debt																																									
104.	<table border="1"> <thead> <tr> <th>Operational Boundary for External Debt</th> <th>Actual 31 December 2016</th> <th>2016/17 Approved</th> <th>2017/18 Estimate</th> <th>2018/19 Estimate</th> <th>2019/20 Estimate</th> <th>2020/21 Estimate</th> </tr> <tr> <td></td> <td>£M</td> <td>£M</td> <td>£M</td> <td>£M</td> <td>£M</td> <td>£M</td> </tr> </thead> <tbody> <tr> <td>Borrowing</td> <td>263</td> <td>509</td> <td>566</td> <td>514</td> <td>519</td> <td>542</td> </tr> <tr> <td>Other Long-term Liabilities</td> <td>78</td> <td>87</td> <td>81</td> <td>79</td> <td>77</td> <td>73</td> </tr> <tr> <td>Total</td> <td>341</td> <td>596</td> <td>647</td> <td>593</td> <td>596</td> <td>615</td> </tr> </tbody> </table>	Operational Boundary for External Debt	Actual 31 December 2016	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate		£M	£M	£M	£M	£M	£M	Borrowing	263	509	566	514	519	542	Other Long-term Liabilities	78	87	81	79	77	73	Total	341	596	647	593	596	615						
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105.	<p>The CFO has delegated authority, within the above limits 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. Council will be notified of any use of this delegated authority.</p>																																									
	HRA Limit on Indebtedness																																									

106. Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self – financing. The HRA is still within the HRA Debt Cap set CLG of £199.6M.

Table 16 – HRA Limit on Indebtedness

107.	HRA Limit on Indebtedness	2016/17 Forecast £M	2017/18 Forecast £M	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M
	Brought Forward	155.00	171.77	193.07	193.13	184.68
	Maturing Debt	(5.59)	(5.59)	(5.93)	(17.94)	(9.55)
	New borrowing	22.36	26.89	5.99	9.49	10.04
	Carried forward	171.77	193.07	193.13	184.68	185.17
	HRA Debt Cap (as prescribed by CLG)	199.60	199.60	199.60	199.60	200.60
	Headroom	27.83	6.53	6.47	14.92	15.43

RESOURCE IMPLICATIONS

Capital/Revenue

108. The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.

Property/Other

109. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

110. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1) (a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

Other Legal Implications:

111. None

POLICY FRAMEWORK IMPLICATIONS

112. This report has been prepared in accordance with the CIPFA Code of Practice on TM.

KEY DECISION?	No
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WARDS/COMMUNITIES AFFECTED:		None
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Existing Investment & Debt Portfolio Position and Projections	
2.	Forecast Long Term Borrowing Requirement and Debt	
3.	Economic and Interest Outlook	
4.	Counterparty Cash and Time Limits	
5.	Glossary of Treasury Terms	
Documents In Members' Rooms		
1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	Prudential Limits and Treasury Management Strategy 2016/17 to 2018/19	Item 6
2.	Treasury Management Strategy and Prudential Limits Midyear Review 2016	Item 9

Agenda Item 6

Appendix 1

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AND PROJECTIONS

	31-Mar-16 Actual	31-Mar-16 Average Rate	Current Portfolio 31st December 2016	Current Portfolio Average Rate	31-Mar-17 Forecast	31-Mar-17 Forecast Average Rate
	£M	%	£M	%	£M	%
External Borrowing:						
Fixed Rate – PWLB Maturity	139	3.90	139	3.83	225	3.67
Fixed Rate – PWLB EIP	58	3.38	49	3.23	47	3.38
Variable Rate – PWLB	35	0.70	35	0.67	35	0.60
Fixed Rate – LOBO	9	4.87	9	4.86	9	4.87
Long Term Borrowing	241	3.35	232	3.32	316	3.23
Short Term Borrowing						
Fixed Rate – Market	8	0.53	30	0.40	40	0.40
Other Long Term Liabilities						
PFI Schemes	65	9.46	63	9.52	62	9.52
Deferred Debt Charges (HCC)	15	3.14	15	3.03	15	3.03
Total Gross External Debt	329	3.33	340	3.18	433	3.02
Investments:						
Managed In-House						
Bank & Building Societies (unsecured)	(10)	0.83	(8)	0.67	(8)	0.67
Covered Bonds (secured)	(21)	1.00	(17)	0.89	(13)	1.02
Corporate and Other Bonds	(21)	2.03	(7)	3.30	(6)	3.30
Money Market Funds	(30)	0.50	(34)	0.29	(10)	0.26
Managed Externally						
Pooled Funds (CCLA)	(7)	5.03	(9)	4.88	(17)	4.85
Total Investments	(89)	2.14	(75)	2.34	(54)	2.68
Net Debt	240		265		379	

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ECONOMIC AND INTEREST OUTLOOK

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2016 is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.55	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.85
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	1.10	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	1.50	1.55	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.25	2.30	2.35	2.35
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.00	2.05	2.10	2.20	2.30	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.80
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	2.95
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.00	3.00
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Underlying Assumptions:

- The UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum,

increasing uncertainties surrounding global growth and recent financial market shocks.

- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Our Advisors forecast the first rise in official interest rates in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

COUNTERPARTY CASH AND TIME LIMITS

These operational limits will be reviewed each quarter and adjusted as necessary for predicated cash flows and balances and any advice from our Financial Advisors.

Credit Rating	Banks Unsecured	Banks Secured	Government & Local Authorities	Corporates	Registered Providers
	£M	£M			
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5M 5 years	£10M 20 years	£10M 50 years	£5M 20 years	£5M 20 years
AA+	£5M 5 years	£10M 10 years	£10M 25 years	£5M 10 years	£5M 10 years
AA	£5M 4 years	£10M 5 years	£10M 15 years	£5M 5 years	£5M 10 years
AA-	£5M 3 years	£10M 4 years	£10M 10 years	£5M 4 years	£5M 10 years
A+	£5M 2 years	£10M 3 years	£5M 5 years	£5M 3 years	£5M 5 years
A	£5M 13 months	£10M 2 years	£5M 5 years	£5M 2 years	£5M 5 years
A-	£5M 6 months	£10M 13 months	£5M 5 years	£5M 13 months	£5M 5 years
BBB+	£2.5M 100 days	£5M 6 months	£2.5M 2 years	£2.5M 6 months	£5M 2 years
None	£1M 6 months	n/a	£10M 25 years	£0.5M 5 years	£5M 5 years
Pooled funds	£10M per fund for MMFs, other funds (e.g. CCLA) subject to specific advice				

Please read notes in paragraph 59 of main report in conjunction with this table.

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GLOSSARY OF TREASURY TERMS

Amortised Cost Accounting:

Values the asset at its purchase price, and then subtracts the premium/adds back the discount linearly over the life of the asset. The asset will be valued at par at its maturity.

Authorised Limit (Also known as the Affordable Limit):

A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. 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).

Balances and Reserves:

Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.

Bail - in Risk:

Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.

A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.

Bank Rate:

The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.

Basis Point:

A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in **interest rates** and **bond yields**. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.

Bond:

A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.

<p>Capital Expenditure:</p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p>Capital Financing Requirement (CFR):</p> <p>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.</p>
<p>Certainty Rate:</p> <p>The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.</p>
<p>CD's:</p> <p>Certificates of Deposits with banks and building societies</p>
<p>Capital Receipts:</p> <p>Money obtained on the sale of a capital asset.</p>
<p>Comprehensive Spending Review (CSR):</p> <p>Comprehensive Spending Review is a governmental process in the United Kingdom carried out by HM Treasury to set firm expenditure limits and, through public service agreements, define the key improvements that the public can expect from these resources. Spending Reviews typically focus upon one or several aspects of public spending while the CSR focuses upon each government department's spending requirements from a zero base (i.e. without reference to past plans or, initially, current expenditure).</p>
<p>Constant Net Asset Value (CNAV)</p> <p>These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.</p>
<p>Corporate Bonds:</p> <p>Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.</p>
<p>Cost of Carry:</p> <p>The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.</p>
<p>Counterparty List:</p> <p>List of approved financial institutions with which the Council can place investments with.</p>
<p>Covered Bond:</p> <p>Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often</p>

a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

CPI :

Consumer Price Index – the UK’s main measure of inflation.

Credit Rating:

Formal opinion by a registered rating agency of a counterparty’s future ability to meet its financial liabilities; these are opinions only and not guarantees.

Department for Communities and Local Government (DCLG) :

The DCLG is the UK Government department for Communities and Local Government in England. It was established in May 2006 and is the successor to the Office of the Deputy Prime Minister, established in 2001.

Debt Management Office (DMO):

The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.

Diversification /diversified exposure:

The spreading of investments among different types of assets or between markets in order to reduce risk.

European Investment Bank (EIB):

The European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion.

Federal Reserve:

The US central bank. (Often referred to as “the Fed”).

Floating rate notes (FRNs) :

Floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three-month Treasury bill or the three-month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.

FTSE 100 Index:

The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

This includes most of the day-to-day spending and income.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced within a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

The G7:

The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth (\$223 trillion), according to Credit Suisse Global Wealth Report September 2012.

IFRS:

International Financial Reporting Standards.

International Labour Organisation (ILO):

The ILO Unemployment Rate refers to the percentage of economically active people who are unemployed by ILO standard and replaced the Claimant Unemployment Rate as the international standard for unemployment measurement in the UK.. Under the ILO approach, those who are considered as unemployed are either out of work but are actively looking for a job or out of work and are waiting to start a new job in the next two weeks. ILO Unemployment Rate is measured by a monthly survey, which is called the Labour Force Survey in United Kingdom. Approximately 40,000 individuals are interviewed each month, and the unemployment figure reported is the average data for the previous three months.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

LIBOR:

The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

LOBO:

Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would

effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Money Market Funds (MMF):

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (eg £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/\$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.
- **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

Multilateral Development Banks:

See Supranational Bonds below.

Municipal Bonds Agency

An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.

Non Specified Investment:

Investments which fall outside the CLG Guidance for **Specified investments** (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day 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.

Premiums and Discounts:

In the context of local authority borrowing,

- (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and
- (b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

**The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.*

Property:

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

Public Works Loans Board (PWLB):

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE):

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *“does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”*. Source: Bank of England.

Repo Rate:

The interest rate at which the central bank in a country repurchases government securities (such as Treasury securities) from commercial banks. The central bank raises the repo rate when it wishes to reduce the money supply in the short term, while it lowers the rate when it wishes to increase the money supply and stimulate growth.

Revenue Expenditure:

Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

RPI:

Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are updated using the RPI index.

(Short) Term Deposits:

Deposits of cash with terms attached relating to maturity and rate of return (Interest).

Specified Investments:

Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

Supported Borrowing:

Borrowing for which the costs are supported by the government or third party.

Supranational Bonds:

Instruments issued by supranational organisations created by governments through international treaties (often called **multilateral development banks**). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.

Treasury (T) -Bills:

Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.

Temporary Borrowing:

Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.

Treasury Management Code:

CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.

Treasury Management Practices (TMP):

Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these

activities.

Unsupported Borrowing:

Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

Variable Net Asset Value (VNAV):

Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.

Yield:

The measure of the return on an investment instrument.

Agenda Item 6

Forecast Long Term Borrowing Requirement and Debt

Appendix 5

Movement on Estimated Long Term Borrowing Requirement - General	2016/17 Estimate £M	2017/18 Forecast £M	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M
Capital Programme	58.47	39.37	12.06	3.25	0.50
Maturing Debt	5.91	5.91	5.91	18.49	10.13
Movement in Internal Borrowing	5.00	5.00	5.00	5.00	5.00
Less Repayment of Debt Principal	(5.00)	(5.40)	(5.85)	(5.99)	(5.98)
New Borrowing Required	64.4	44.9	17.1	20.8	9.7

Table 2

Movement on Estimated Long Term Borrowing Requirement - HRA	2016/17 Estimate £M	2017/18 Forecast £M	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M
Capital Programme	22.36	26.90	5.98	9.49	10.04
Maturing Debt	5.59	5.59	5.93	17.94	9.55
Movement in Internal Borrowing	0.00	0.00	0.00	0.00	0.00
Less Repayment of Debt Principal	(5.59)	(5.59)	(5.93)	(17.94)	(9.55)
New Borrowing Required	22.36	26.90	5.98	9.49	10.04

Table 3

Total Movement on Estimated Long Term Borrowing Requirement	2016/17 Estimate £M	2017/18 Forecast £M	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M
Capital Programme	80.83	66.27	18.04	12.74	10.54
Maturing Debt	11.51	11.50	11.84	36.43	19.68
Movement in Internal Borrowing	5.00	5.00	5.00	5.00	5.00
Less Repayment of Debt Principal	(10.59)	(10.99)	(11.78)	(23.93)	(15.53)
New Borrowing Required	86.74	71.78	23.11	30.24	19.69

Table 4

Long Term Borrowing	31/03/2017 Estimate £M	31/03/2018 Forecast £M	31/03/2019 Forecast £M	31/03/2020 Forecast £M	31/03/2021 Forecast £M
Balance brought forward	240.80	316.04	376.32	387.58	381.40
Maturing Debt	(11.51)	(11.50)	(11.84)	(36.43)	(19.68)
New Debt Raised in year	86.74	71.78	23.11	30.24	19.69
Estimated Long Term Debt	316.04	376.32	387.58	381.40	381.41
Short Term Debt	40.00	40.00	40.00	40.00	40.00
Estimated Total Debt	356.04	416.32	427.58	421.40	421.41

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Agenda Item 7

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	RISK MANAGEMENT POLICY AND DEVELOPMENT PLAN		
DATE OF DECISION:	13 th FEBRUARY 2017		
REPORT OF:	SERVICE DIRECTOR FINANCE & COMMERCIALISATION		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	Peter.rogers@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
None	
BRIEF SUMMARY	
<p>Effective management of risk should be seen as an ‘enabler’ in terms of achievement of the Council’s key priorities and outcomes and in responding positively to opportunities as they may arise. Conclusion of the Phases 1 and 2 of the organisational restructure has provided an opportune time to review and refresh the Council’s overall approach to risk management. The Risk Management Development Plan sets out the actions necessary for the Council to develop a more ‘risk aware’ approach and, in so doing, benefit from risk being embedded and integrated within the organisation and its key business processes.</p> <p>As part of the Plan, the Council’s Risk Management Policy has also been reviewed and updated to ensure that it remains aligned with good practice and reflects the ‘business need’. The Risk Management Policy provides an overview of the operating framework, arrangements and responsibilities for managing risk within the Council.</p>	
RECOMMENDATIONS:	
	(i) To note the content of the Risk Management Development Plan (Appendix 1).
	(ii) To note the content of the Risk Management Policy 2017/18 - 2020/21 (Appendix 2).
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement. In addition, the Committee needs to satisfy itself that appropriate action is being taken on risk and internal control related issues identified by

	the internal and external auditors and other review and inspection bodies.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	No alternative options have been considered.
DETAIL (Including consultation carried out)	
3.	Risk Management is the process of identifying significant threats to, and opportunities for, the achievement of the Council's key priorities and outcomes. It is also the process of evaluating the potential consequences of a risk event and implementing the most effective way of responding to, controlling and monitoring those risks.
4.	Effective management of risk can help to support the Council in achieving its priorities and outcomes and in responding positively to opportunities as they may arise, by ensuring that there is a single and consistent approach for the management of business risk. In turn, this will support informed decision taking that will enable opportunities to be exploited and action to be taken to mitigate or manage risk to an acceptable level.
5.	As the Council looks to explore opportunities in respect of alternative service delivery models and to operate on a more commercial basis, the need to understand the risks associated with these new activities becomes even more important in terms of understanding and choosing the 'right risks to take'. A 'risk aware' approach will support the Council in managing risk and uncertainty in a systematic, consistent and efficient way as well as aiding better decision making.
6.	The Risk Management Development Plan (Appendix 1) reflects a combination of best practice together with a consideration of those outcomes and proportional actions that will demonstrably 'add value'. The suggested actions are intended to support the Council in moving toward a more 'risk aware' approach. The aim is for risk management to be used in a proportional way to support informed decision taking (by both officers and managers) and be perceived by management teams as tool that can be used to support the delivery of key outcomes and priorities including consideration of business or commercial opportunities.
7.	The development and timing of the Plan was necessarily and consciously informed by the conclusion of the Phases 1 and 2 of the organisational restructure. Conclusion of this exercise provided the opportunity to ensure that the refreshed approach to risk management was aligned with both the new organisational structure and agreed organisational priorities and outcomes.
8.	The Plan was discussed and agreed by the Council Management Team on 17 th January.
9.	The agreed actions will be managed via an action plan with periodic progress reports to both the Council's Management Team and the Governance Committee.
10.	As part of the Plan, the Council's Risk Management Policy has been reviewed and updated to ensure that it remains aligned with good practice (Appendix 2). The Policy period is aligned with the Council's Medium Term

	Financial Strategy and will form a part of this document going forward, however it will be subject to annual review.
11.	The Risk Management Policy provides an overview of the operating framework, arrangements and responsibilities for managing risk within the Council. It is intended to raise awareness of the overarching principles of risk management and to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. It is also relevant to Members in their capacity as 'decision makers' and the Governance Committee in respect of its responsibility for overseeing the Council's risk management arrangements.
12.	The Risk Management Policy forms part of the Council's Strategy and Policy Framework and will be hosted on the Policy Hub.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
10.	None
<u>Property/Other</u>	
11.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
12.	The Accounts and Audit (England) Regulations 2015 Part 2 Section 3A(c) required the Council to have in place a 'sound system of internal control which includes effective arrangements for the management of risk'.
<u>Other Legal Implications:</u>	
13.	None
POLICY FRAMEWORK IMPLICATIONS	
14.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Risk Management – Development Plan
2.	Risk Management Policy 2017/18 – 2020/21
Documents In Members' Rooms	
1.	N/A
Equality Impact Assessment	

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents		
Equality Impact Assessment and Other Background documents available for inspection at:		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.		
2.		

Risk Management – Development Plan

The following outcomes reflect a combination of best practice together with a consideration of those outcomes and proportional actions that will demonstrably 'add value'. The suggested actions are intended to support the Council in moving toward a more 'risk aware' approach. The aim is for risk management to be used in a proportional way to support informed decision taking (by both officers and managers) and be perceived by management teams as tool that can be used to support the delivery of key outcomes and priorities including consideration of business or commercial opportunities.

The Cabinet Member for Finance will be briefed regarding the agreed actions arising from this paper and a report is to be presented to the Governance Committee on 13th February 2017, setting out the refreshed and reconfigured approach to risk management.

The agreed actions will be managed via an action plan with periodic progress reports to both the Council's Management Team and the Governance Committee.

1. OUTCOME: Decision makers are provided with relevant and proportional information regarding the risks that may be associated with the activity, project or initiative in order to support informed decision taking.

CURRENT ARRANGEMENT:

- The need to identify and communicate key risks forms part of the Decision Making: Corporate Standards & Guidance for Officers which requires report authors 'to consider whether there are any significant risks associated with the idea/proposal and how these might need to be presented'.
- The 'Details' section of the corporate report template is expected to be used to highlight any key risks associated with the proposal, or alternatively a risk register may be included as an appendix to the report.
- There is 'Decision Risk' guidance on the intranet which is intended to enable the report author to self-assess the appropriate level of information regarding risk that should feature within, or accompany, a decision making report. See the following link:
<http://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/decision-making-risk.aspx>
- In practice, reports tend not to make specific reference to risk, other than those relating to certain 'key decisions' where a risk register may be provided.

BEST PRACTICE

- a Corporate (Decision Making) Report template that includes a standard 'Risk' section in which any significant risks associated with the decision can be brought to the attention of the decision taker.
- b Proportionate and relevant risk information is provided to the decision taker in order to support and facilitate informed decision taking.

ACTION

- i Corporate Report Template and the associated Decision Making: Corporate Standards & Guidance for Officers to be amended and republished.

- ii Existing 'Decision Risk' guidance document to be amended.
- iii Training / support for report authors to be made available.
- iv Members, in their capacity as the decision takers, should be advised of the reasons for change to the corporate template and what they can reasonably expect to receive in terms of risk information and what this information is intended to communicate.

2. OUTCOME: The Council has identified and understands the key risks that may impact on the delivery of its key priorities and outcomes and appropriate action is taken to manage or mitigate the risk where it is considered to be unacceptable

CURRENT ARRANGEMENT:

- A Strategic Risk Register is in place.
- 'Risk Owners' are required to provide a quarterly update to the Service Lead – Risk, Insurance, Assurance and Audit.
- The Council Management Team previously undertook periodic 'risk review workshops' where the strategic risks were reviewed and considered, however the last such formal joint review was in early 2016.
- The development of a Strategic Risk Register for the new financial year would consider any new or emerging risks and would be informed by 'Core Cities' strategic risks.
- The updated Risk Register had previously reported to the Governance Committee for noting (currently deferred)
- Business cases and outcome plans both include reference to risk.

BEST PRACTICE

- A** The identification and management of risk is embedded and forms an integral part of key business and organisational management processes.
- B** The Senior Management Team undertakes an exercise to identify and understand the key risks that may impact on the delivery of its key priorities and outcomes (and/or reviews the existing strategic risks in order to assess whether they are still relevant and appropriate).
- C** Strategic risks are aligned with the Council's key priorities / outcomes (Council Strategy).
- D** The Senior Management Team undertakes a periodic review, ideally quarterly, but no less than bi-annually, of the organisation's key Strategic Risks. The review process considers any new or emerging risks.
- E** The review process includes a summary of service (operational) risks and considers whether there are any common or recurring themes arising from Service Risk Registers that may be identified as requiring corporate oversight.
- F** Service Directors are expected to alert the Senior Management Team of any significant new or emerging risks that may impact on the delivery of the Council's key priorities and outcomes.
- G** The timing of the review process is aligned with (Governance) Committee cycle.

- h The Governance Committee is provided with a periodic report providing assurance that appropriate arrangements are in place in respect of the adequacy of the risk management framework.

ACTION

- i Annually, as part of the business planning process, CMT should review and consider the Council's strategic risks for the forthcoming period and consider what it requires in terms of output/information in respect of risk which, in turn, should reflect the Council's risk appetite.
- ii Strategic Risk Register to be managed by the Strategy and Operations Hub Management Teams via a quarterly review process. Updated document to be circulated to CMT for noting.
- iii Review meetings should consider any 'significant service risks' and/or any new or emerging risks.
- iv A corporate risk reporting cycle to be adopted in line with the business planning and monitoring timetable.

3. OUTCOME: Individual service areas have identified and understand the key risks that may impact on the delivery of key priorities and outcomes

CURRENT ARRANGEMENT:

- The corporate Service Business Plan template requires service areas to identify Risks, Opportunity, Assumptions and Dependencies.
- There is 'Service Risk Register' information and guidance on the intranet, including a template risk log, Q&As, review checklist etc. See the following link:
<http://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/service-risk-registers.aspx>
- The Council's Financial Procedure Rules require that Service Directors take responsibility for risk management including ensuring that there are regular reviews of risk with their service areas.

BEST PRACTICE

- a The identification and management of risk is embedded and forms an integral part of key business and organisational management processes.
- b Service Management Teams undertake an exercise to identify and understand the key risks that may impact on the delivery of its key priorities and outcomes.
- c The 'risks section' within the Service Business Plan template is used to inform and support the development of a Service Risk Register which itself is aligned with the key services priorities / outcomes
- d Service Management Teams undertake a periodic review, at least quarterly, of the key risks identified.
- e As part of the review process the Service Management Team considers any new or emerging risks that may impact on the service.

f Service Management Teams nominate a 'risk lead/sponsor' from within their management team to be responsible for promoting and supporting a consistent approach to the management of risk.

g Individual Service Leads/Managers are expected to alert the Service Management Team of any significant new or emerging risks as they arise.

h The timing of the review process is aligned with Senior Management Team risk review cycle.

ACTION

i Service Management Teams to engage/re-engage with the process and adopt an explicit and transparent approach in respect of the management of risk.

ii A risk reporting cycle to be aligned with the corporate risk reporting cycle.

iii Service Management Teams to nominate a 'risk lead/sponsor'.

iv Appropriate training / support to be made available.

4. OUTCOME: Cabinet Members have an awareness and understanding of the key risks associated with their portfolio

CURRENT ARRANGEMENT:

- The information provided to Cabinet Members regarding risk is on an ad hoc basis and tends to relate to individual projects or initiatives
- There is currently no consistent approach in terms of how and what information is presented to individual cabinet members.

BEST PRACTICE

a Cabinet Members are presented with information regarding the key risks associated with their portfolio.

b The timing is aligned with the Corporate Risk Reporting Cycle.

ACTION

i Both the Strategic and Service Risk Register to include reference to the portfolio(s) to which the risks relate.

ii Risk reporting cycle should be included as part of the normal performance monitoring cycle.

iii Service Lead - Risk, Insurance, Assurance & Audit to provide advice and support to service areas in terms of the risk information that is presented at Cabinet Member Briefings.

5. OUTCOME: There is a consistent and well understood corporate approach in respect of how risk is managed

CURRENT ARRANGEMENT:

- A revised and updated Policy and Strategy has been drafted for 2016-17 taking into account the output of a best practice review undertaken by risk management consultants from the Council's insurers in Q4 2015-16.
- This document was intended to be presented to CMT for approval in the Q2 2016-17 however this was deferred on the basis that other policies were also being presented to CMT later in the year.
- The 2015-16 version of the Risk Management Policy and Strategy is published on the intranet See the following link: <http://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/policy-and-strategy.aspx>

BEST PRACTICE

- a The Risk Management Policy and Strategy positions risk management as part of its overall approach to governance and delivery by establishing a comprehensive framework for risk that complements its business strategies. The document seeks to articulate the organisation's appetite for risk taking or risk aversion.
- b The Policy and Strategy provides a clear and concise outline of the organisation's requirements for risk management, a description of where risk management is positioned as part of the organisation's overall approach to governance, the accountabilities and responsibilities for managing risk, the processes, methods and resources available to be used for risk management and the way in which risk management performance will be measured and reported.
- c The Risk Management Policy and Strategy is approved and 'owned' by the Senior Management Team.
- d The Policy and Strategy is subject to an annual review and approval process.
- e An 'annual RM Action Plan' accompanies the draft RM Policy & Strategy.
- g The risk management policy is effectively communicated and understood throughout the organisation as management of risk is relevant in every function and at every level.

ACTION

- i The current draft Risk Management Policy should be refreshed for 2017-18 and presented to both CMT and the Governance Committee (April 2017 meeting) for approval.
[NOTE: CMT considered that the Risk Management Policy should be aligned with the Council's Medium Term Financial Plan in terms of the period that it covers, as opposed to being an annual document].
- ii The Policy should include an annual 'Risk Management Action Plan'.
- iii The Risk Management Policy should be published on the intranet.
- iii The Risk Management Policy should be included in the strategy and policy framework

(recognising that it will need to follow the corporate template in order that it meets the design standards for the council).

- iv The documents to be cleared by the Senior Leadership Team / Council Management Team and Cabinet Member in order to escalate the importance and it then hosted on the new policy hub.
- v Communication and training options should be identified including consideration of e-learning for new or existing staff.
- vi The new staff 'Performance Contracts' and the monitoring arrangements should provide the opportunity to reinforce expectations in respect of responsibilities for managing risk and to dispel any perceptions in respect of a 'blame culture'.

*Peter Rogers – Service Lead Risk, Insurance, Assurance & Audit
February 2017*

Southampton City Council

Risk Management Policy

2017/18 - 2020/21



CONTENTS

1. Purpose
2. What is risk management?
3. Risk Management Policy Statement
4. Corporate Risk Management Methodology
5. Risk Management Roles and Responsibilities
6. Integration with other processes
7. Communication
8. Reporting
9. Review

Appendices

- i - Glossary of common terms used in relation to risk management*
- ii - Risk Matrix (Likelihood and Impact)*
- iv - Risk Register Templates*
- iv - Risk Financing Policy*

Publication Scheme			
Version	1.0	Approved by	Council Management Team / Governance Committee Board
Date last amended	27 th January 2017	Approval date	
Lead officer	Peter Rogers, Service Lead – Risk, Insurance, Assurance and Audit.	Review date	February 2018
Contact	insurance@southampton.gov.uk	Effective date	

Southampton City Council – A city of opportunity where everyone thrives

1. Purpose

- 1.0 The purpose of this policy is to provide an overview of the operating framework, arrangements and responsibilities for managing risk within the Council. It is intended to raise awareness of the overarching principles of risk management and to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. It is also relevant to Members in their capacity as ‘decision makers’ and the Governance Committee in respect of its responsibility for overseeing the Council’s risk management arrangements.

- 1.1 This policy, which has been developed in line with good practice*, recognises that local government increasingly involves dealing with uncertainty and managing significant change whilst at the same time meeting the expectation of delivering improved and more cost effective services in new and innovative ways. All of this activity attracts risk which needs to be managed effectively if required outcomes are to be achieved and exposure to unacceptable losses avoided. Effective management of risk is essential in supporting a ‘culture of innovation’ and moving from a ‘risk averse’ to a more ‘risk aware’ approach.

- 1.2 The framework and principles referred to in this document are expected to be adopted and applied in respect of all activities that involve the management of risk. The following, which is not a complete list, illustrates the diverse range of Council policies, strategies and plans which involve, or make specific reference to, the need to manage risk.



* including ‘ISO 31000:2009 Risk Management – Principles and Guidelines’ and ‘A Structured Approach to Enterprise Risk Management’ issued by the Institute of Risk Management, the Association of Insurance and Risk Managers and the Association of Local Authority Risk Managers.

2. What is risk management?

2.0 Risk and risk management may be defined as follows:

- **Risk** - ‘the effect of uncertainty on objectives’, which can be positive or negative.
- **Risk Management** - ‘co-ordinated activities to direct and to control an organisation with regard to risk’.

2.1 Risk Management is the process of identifying significant threats to, and opportunities for, the achievement of the Council’s key priorities and outcomes. It is also the process of evaluating the potential consequences and implementing the most effective way of responding to, controlling and monitoring those risks.

2.2 Effective management of risk should be seen as an ‘enabler’ as opposed to a ‘barrier’ in terms of achievement of the Council’s key priorities and outcomes. In becoming more risk aware the Council will be better placed to reduce the impact and likelihood of threats occurring and to take advantage of opportunities.

2.3 Risk management is an essential part of good governance within any organisation and is a key component of the Council’s overall governance arrangements. It provides a framework and process that enables an organisation to manage uncertainty in a systematic, consistent and efficient way. It supports informed decision making thereby enabling opportunities to be exploited, or action to be taken to mitigate or manage risk to an acceptable level.

2.4 The Accounts and Audit (England) Regulations 2015 state that “A relevant authority (the Council) must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk”.

2.4 The Council’s Financial Procedure Rules also require that Chief Financial Officer prepares and promotes the authority’s risk management policy statement and that Service Directors take responsibility for risk management including ensuring that there are regular reviews of risk with their service areas.

2.5 The Council’s risk management function is provided by Risk and Insurance Services within Finance & Commercialisation.

3. Risk Management Policy Statement

The Council recognises the need to identify and understand its key business risks and is committed to ensuring that appropriate arrangements are in place to enable informed risk decision taking, recognising the need to optimise the balance between risk and reward.

Risk management is part of good management and essential in supporting a 'culture of innovation' and moving from a risk averse to a 'risk aware' approach. It is recognised that, in order to be effective, the approach to managing risk needs to be structured and consistent and operate at both strategic and operational levels within the organisation. It is also recognised that risks should be aligned with key priorities and outcomes and that actions should be proportionate to the level of risk.

In seeking to ensure the effective management of key risks the Council will:

- Promote a consistent and clear approach in terms of how risk should be treated and managed;*
- Raise the profile and understanding of risk management at all levels across the organisation;*
- Support officers and members in terms of taking informed risk aware decisions; and*
- Reflect good practice which is aligned with the Council's approach to corporate governance.*

4. Corporate Risk Management Methodology

4.0 In order to ensure that risk is managed on a consistent basis there needs to be a standard methodology setting out the key principles. This methodology can then be adapted as necessary in order to reflect the approach that is most appropriate in the circumstances.

4.1 This methodology should be followed when undertaking activities such as:

- Outcome Based Planning and Budgeting;
- Project Initiation and Planning;
- Organisational change;
- Outsourcing and partnership working;
- Change management (e.g. internal re-structure) etc.

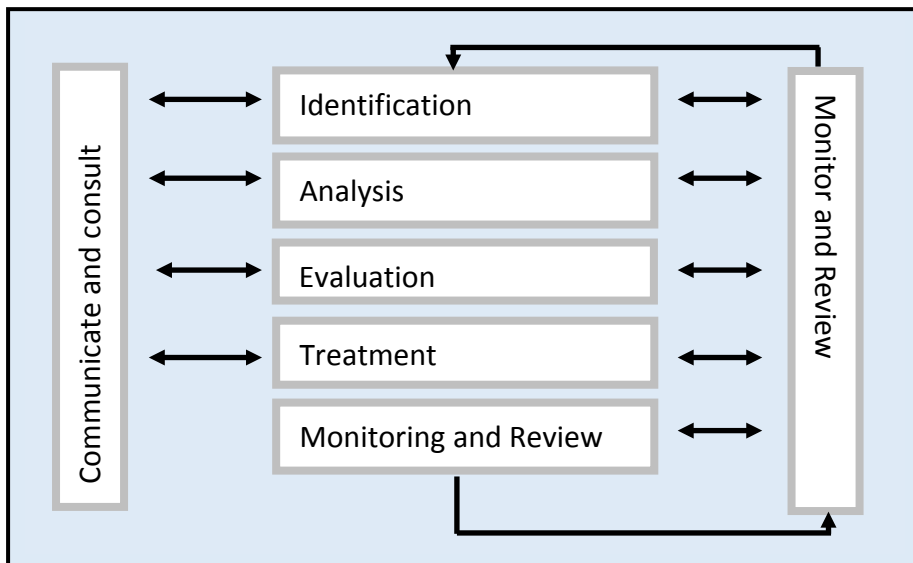
4.2 An important part of the process is to identify key risks - 'what (risks) need to be managed in order to achieve the required outcomes of the project, service or activity?' The achievement, or otherwise, of key objectives or outcomes may depend upon:-

- the Council doing certain things and not doing others;
- the occurrence of events, both internal and external, that could affect the Council, and
- the circumstances in which the organisation finds itself.

4.3 The risk management process and framework defines how risk is handled and includes risk analysis, evaluation, risk treatment (or reduction), risk monitoring and review, and risk

communication and consulting. The following shows the risk management framework and process adopted by the Council:

i) Process



ii) Framework

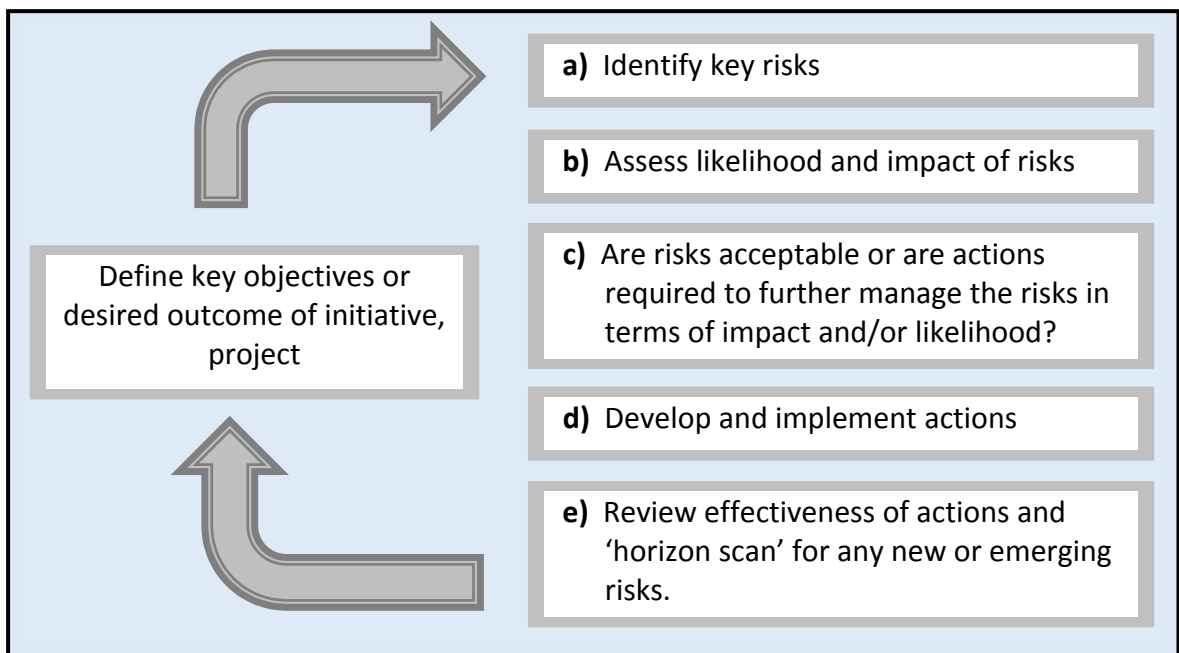


Figure 1.0 Risk Management Process and Framework

- a) What could prevent the organisation, service or project from delivering its key priorities and required outcomes? Is ‘success’ subject to key dependencies or assumptions? Have you considered the “what if” scenario? The identification of key risks may either be via a group exercise or individual contribution however there should be consensus on what the key risks are. It may be helpful for each risk to be considered in terms of ‘event – cause (or trigger) – consequence’. Typically risks are articulated using the following terms “Loss of..., Failure to..., Lack of..., Opportunity to ..., Increase in... etc”.

- b) Each risk should then be considered in terms of how likely it is to occur and, if it did, what the potential impact might be? The 'risk scores' may then be plotted on a 'Risk Matrix' (Appendix ii) which can be used to highlight the most significant risks and/or illustrate how risks compare with, or relate to, each other. In most cases the focus will inevitably be on the highest risks i.e. those that pose the greatest threat.
- c) The aim is to ensure that that the decision maker, project manager, board, service director etc is able to make an informed decision as to whether a particular risk can, or should, be accepted (after considering the 'likelihood and impact'). 'Risk appetite' is likely to be informed by an understanding of any existing controls and will also be influenced by the expected 'reward' or outcome. The logic used to treat risk is as follows:

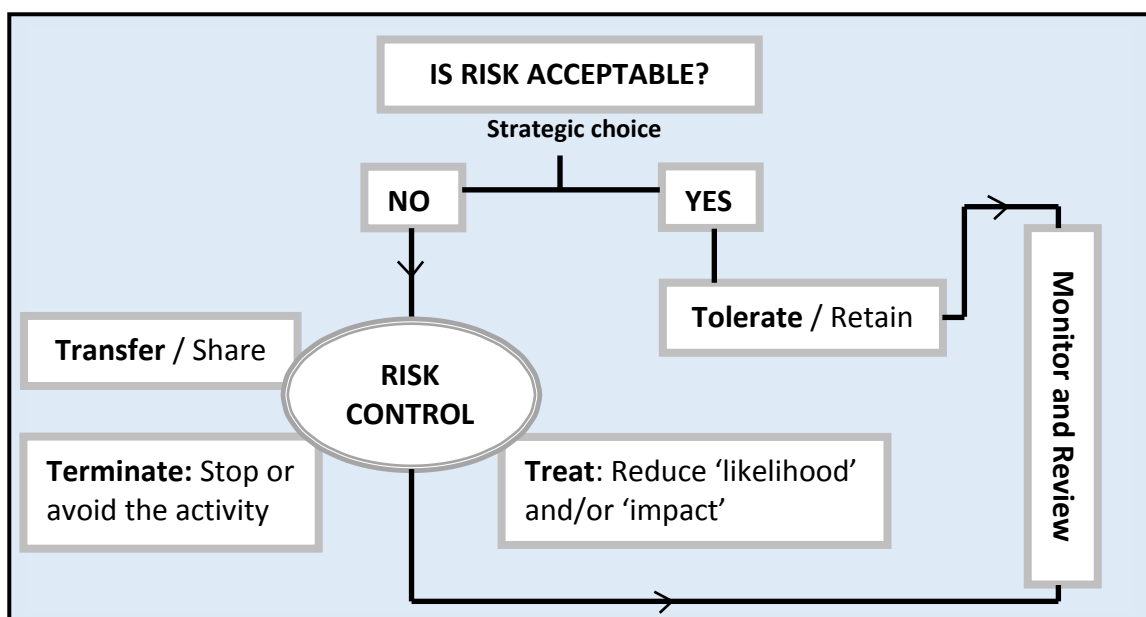


Figure 2.0 Risk Treatment Logic

- d) In terms of risk treatment the options comprise one, or a combination, of the following:
- **Treat:** reduce risks to an acceptable level by developing and implementing actions or controls to reduce the likelihood and/or impact of the risk event; OR
 - **Transfer:** risks may be able to be shared or transferred to another party e.g. contract, partnership or insurance; OR
 - **Terminate:** or avoid the activity (the risk is unacceptably high and/or the cost or effort in managing the risk to an acceptable level is disproportionate to the potential benefit or gain); OR.
 - **Tolerate:** the current level of risk is considered to be acceptable to the Council.
- e) The agreed actions to manage the risk should be formally recorded with responsibility for action clearly identified together with an appropriate timescale for action (see Appendix iii for examples of risk registers). The risk register, or log, should be subject to periodic review, and challenge, to ensure that the agreed actions are being progressed

satisfactorily. In addition, the review will provide an opportunity to consider whether there are any new or emerging issues that may impact on the risk and/or any new risks that need to be considered.

5. Risk Management Roles and Responsibilities

5.0 All employees, members and those who act on behalf of the Council have a role to play in managing risk. The principal roles and responsibilities are summarised below:-

Individual/Group	Role/Responsibility
Members	<ul style="list-style-type: none"> To have an understanding of the key principles of risk management;
Cabinet Member for Finance	<ul style="list-style-type: none"> To be responsible for leading on risk management.
Cabinet Members	<ul style="list-style-type: none"> To ensure that there is an appropriate consideration of risk in relation to the decision making process; To be aware of the Council’s strategic risks and those relating to their respective portfolios.
Governance Committee	<ul style="list-style-type: none"> To provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the Annual Governance Statement; To be satisfied and provide assurance that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.
Council Management Team	<ul style="list-style-type: none"> To approve the Council’s Risk Management Policy and to determine and agree the Council’s overall risk appetite; Annually, to identify and agree the Council’s strategic risks and to facilitate development of appropriate action plans to manage the risks.
Strategy Hub Management Team / Operations Hub Management Team	<ul style="list-style-type: none"> To review, on a quarterly basis, the Council’s key risks; To review, on a quarterly basis, the Service Risk Registers; To support and monitor the implementation and ongoing processes for embedding risk management throughout the Council.

Individual/Group	Role/Responsibility
Service Directors / Service Management Teams	<ul style="list-style-type: none"> • To identify operational or service risks and ensure that such risks are managed in accordance with the Council’s Risk Management Policy, thereby ensuring that there is a co-ordinated and consistent approach to the identification and management of risk; • To ensure that information management risks are appropriately managed; • To ensure that robust business continuity plans are in place covering key service areas and that the plans are reviewed and tested within agreed timescales; • To provide evidence, based on sources of internal and external assurance, to support preparation of the Annual Governance Statement.
Service Leaders / Service Managers	<ul style="list-style-type: none"> • To manage risk effectively in their service areas and in accordance with the agreed risk appetite or tolerance.
Service Lead: Risk, Assurance, Insurance & Audit	<ul style="list-style-type: none"> • To facilitate the continuing development of the Council’s risk management arrangements including developing appropriate guidance and information; • To support services in the management of operational and strategic risk; • To facilitate and support the both the Hub Management Teams and the Council Management Team in respect of the periodic review of the Council’s key risks; • To arrange appropriate risk financing measures and provide advice and guidance on the extent of insurance or self-insurance arrangements; • Where appropriate, to arrange the placement of cover with insurers including the negotiation of premium rates and policy terms.
Employees	<ul style="list-style-type: none"> • To manage risk in the course of undertaking their duties.

6. Integration with other processes

6.0 Outcome Based Planning and Budgeting / Performance Management

As part of the business planning process Service Directors and their management teams are required to identify the risks that may impact on delivery of their key priorities and outcomes. The identified risks are then used to inform development of Service Risk Registers noting that Services Directors may, at their discretion, consider it necessary to escalate a risk to the Council’s Strategic Risk Register for oversight by CMT. Guidance document and templates are published on the intranet which are intended to support the development of service risk registers and provide guidance in respect of the review and monitoring processes.

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/service-risk-registers.aspx>

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6.1 Medium Term Financial Strategy

The Council's Medium Term Financial Strategy includes a financial risk register that is reviewed on a quarterly basis. The financial risk register identifies the key risks to the Council's financial position over the short to medium term together with a summary of the mitigating actions in place and/or planned. These financial risks include an assessment of both the adequacy of proposed financial reserves and an assessment of the robustness of estimates.

6.2 Decision Making

A report author is expected to provide the decision taker with relevant and proportional information regarding the risks that may be associated with the activity, project or initiative that is the subject of a decision making report. In respect of risk, the report author should consider what information the decision taker might reasonably be expected to need to know and understand, particularly those risks that they are being asked to accept. Information regarding risk should be both relevant and proportional in order to support informed decision taking. Further guidance in respect of how risk is presented in a corporate decision making report is published on the intranet at: <https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/decision-making-risk.aspx>

6.3 Partnership Working

A 'Partnership Code' forms part of the Council's Constitution. This Code outlines the requirements for establishing, managing and reviewing partnerships, as well as expected conduct of Council officers and Councillors who are a member of a partnership. The Code makes reference to the need for risks to be assessed and monitored both at inception and dissolution of a partnership. Partnership Risk Management guidance is also published on the intranet at: <https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/partnership-risk.aspx>

6.4 Programme and Project Management

The importance of identifying and managing risk is a theme that runs throughout the programme and project management process from initiation to implementation. Published guidance on the intranet is intended to assist both project managers and project sponsors/boards in understanding both the importance of managing risk and the process of identifying and managing key risks. <https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/project-risk-management.aspx>

6.5 Internal Audit

Internal audit plays a vital role in advising the Council that arrangements in relation to governance, risk management and internal control are in place and operating effectively. Response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations

objectives. The Internal Audit function provides an independent, objective assurance and consulting activity designed to add value and improve an organisations operations. The Council's annual 'Internal Audit Plan' is informed by the Council's strategic risks together with discussions with individual Service Directors and CMT.

6.6 Corporate Governance

Corporate governance comprises the systems and values by which Councils' are directed and controlled and through which they are accountable to and engage with their communities. To demonstrate compliance with the principles of good corporate governance, Southampton City Council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. CIPFA / Solace "*Delivering Good Governance in Local Government*" guidance identifies "Managing risks and performance through robust internal control and strong public financial management" as being one of the principles of good governance.

6.7 Annual Governance Statement

The Accounts and Audit (England) Regulations 2015 require that local authorities publish an Annual Governance Statement ("AGS") with their annual Statement of Accounts. The AGS is a key corporate document that sets out the Council's overall corporate governance framework and highlights any significant gaps or areas where improvement is required. Risk Management is an integral part of the Council's overall governance framework.

6.8 Fraud Risk Management

The policies and processes in respect of fraud risk management apply to all employees, elected members and others who work for or on behalf of the Council. Internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets. The Council's Anti-Fraud and Corruption Policy and associated policies are published on the intranet at:

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/internal-audit/fraud-and-corruption.aspx>

7. Communication

7.0 The Risk Management Policy and other associated guidance and template documents are published on the intranet and subject to periodic review to ensure that they remain fit for purpose. The Risk Management Policy forms part of the Council's Strategy and Policy Framework and is hosted on the Policy Hub.

8. Reporting

8.0 The Service Lead: Risk, Assurance, Insurance & Audit Risk shall, via the Service Director Finance and Commercialisation, present an annual report to the Governance Committee outlining the risk activities and risk priorities for the forthcoming period and will

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additionally provide a mid-term update. Any shared learning arising from the annual plan is cascaded to via Service Directors as appropriate.

9. Review

- 9.0 The Risk Management Policy is approved by Council Management Team and presented the Council's Governance Committee for noting. The document is reviewed annually by the Council's the Service Lead: Risk, Assurance, Insurance & Audit with any significant changes reported to both CMT for approval and the Governance Committee.

Glossary of common terms used in relation to risk management

Appendix i

Assessing risks	<i>The evaluation of risk with regard to the impact if the risk is realised and the likelihood of the risk being realised.</i>
Consequence	<i>The outcome of an event.</i>
Contingency	<i>An action or arrangement that can be put into place to minimise the impact of a risk if it should occur.</i>
Control	<i>Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.</i>
Corporate Governance	<i>The system by which an organisation is directed and controlled.</i>
Exposure	<i>The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.</i>
Fraud	<i>The intentional distortion of financial statements or other records by persons internal or external to the organisation, which is carried out to conceal the misappropriation of assets or otherwise for gain.</i>
Governance Committee	<i>The Member body responsible for ensuring the adequacy of the risk management framework, internal control and reporting environment including (but not limited to) the reliability of the financial reporting process and the Annual Governance Statement.</i>
Hazard	<i>A situation or thing that has the potential to harm a person or organisation</i>
Horizon Scanning	<i>Systematic activity designed to identify, as early as possible, indicators of changes in risk.</i>
Identifying Risks	<i>The process by which events that could affect the achievement of key objectives, are drawn out, described and recorded.</i>
Impact	<i>The effect that a risk event would have if it occurs.</i>
Inherent Risk	<i>The level of risk before any action has been taken to manage it.</i>
Internal Control	<i>The policies, procedures, practices and organisational structures designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected.</i>
Likelihood	<i>The probability that an identified risk event will occur.</i>

Operational Risk	<i>Risks concerned with day-to-day operational issues that an organisation might face as it delivers its services.</i>
Residual Risk	<i>The level of risk remaining after action has been taken to manage it.</i>
Risk	<i>The effect of uncertainty on objectives.</i>
Risk Appetite/Tolerance	<i>The amount of risk that the Council is prepared to accept, tolerate or be exposed to at any point in time.</i>
Risk Assurance Report	<i>The risk reporting tool adopted by the Council which captures information about each risk in terms of how it should be managed and the effectiveness of the controls in place (via an assurance rating).</i>
Risk Financing	<i>The mechanisms (e.g. insurance programmes) for funding the financial consequences of risk.</i>
Risk Management	<i>The culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives.</i>
Risk Owner	<i>The person with responsibility for that controls in place to manage a risk are adequate and appropriate and/or that the actions required to manage a risk are being progressed.</i>
Risk Matrix	<i>The number of levels of likelihood and impact against which to measure the risk and to record the risk appetite.</i>
Risk Policy	<i>The overall organisational approach to risk management.</i>
Strategic Risk	<i>Risks concerned with the high level strategic aims and objectives of the organisation.</i>

Risk Scoring - Likelihood and Impact

Appendix ii

LIKELIHOOD	Almost Certain	A					
	Likely	B			MANAGE & REDUCE		
	Possible	C	MANAGE & REVIEW				
	Unlikely	D					
	Very Unlikely	E	MONITOR & REVIEW				
RISK RATING MATRIX			5	4	3	2	1
			Minor	Moderate	Significant	Major	Extreme
			IMPACT				

LIKELIHOOD (Probability)		
A - Almost Certain	> 95%	Highly likely to occur
B - Likely	↑	Will probably occur
C - Possible	50%	Might occur
D - Unlikely	↓	Could occur but unlikely
E - Very Unlikely	< 5%	May only occur in exceptional circumstances

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IMPACT (Consequence)			
	SERVICE DELIVERY (key outcomes/ priorities)	FINANCIAL	REPUTATION
5 - Minor	No noticeable effect	Expenditure or loss of income < £10k	Internal review
4 - Moderate	Some temporary disruption to a single service area/ delay in delivery of one of the Council's key strategic outcomes or priorities	Expenditure or loss of income £10k - £499k	Internal scrutiny required to prevent escalation
3 - Significant	Regular disruption to one or more services/ a number of key strategic outcomes or priorities would be delayed or not delivered	Expenditure or loss of income £500k - £4.99m	Local media interest. Scrutiny by external committee or body
2 - Major	Severe service disruption on a services level with many key strategic outcomes or priorities delayed or not delivered	Expenditure or loss of income £5m - £9.99m	Intense public and media scrutiny
1 - Extreme	Unable to deliver most key strategic outcomes or priorities / statutory duties not delivered	Expenditure or loss of income >£10m	Public Inquiry or adverse national media attention

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Risk Register - Templates

Appendix iii

It is important that the methodology used in terms of how the risks are identified, assessed and managed is consistent. It is recognised however that the 'Risk Register' or 'Risk Log' may need to vary slightly according to the business need. The following templates are available on the intranet at: <https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/templates.aspx>

SERVICE RISK REGISTER - TEMPLATE

The following table identifies the key service risks together with a summary of the mitigating actions in place and planned. Note: the term 'Inherent Risk' reflects an assessment of the risk *before* any mitigating actions have been applied with the 'Residual Risk' reflecting the position *after* mitigating actions have been applied.

Version No: 01

Last Review Date: / /

Next review Date: / /

RISK DESCRIPTION	INHERENT RISK		MITIGATING ACTIONS: IN PLACE / PLANNED	RISK OWNER	TARGET RESIDUAL RISK	
	Likelihood	Impact			Likelihood	Impact
1.	B Likely	1 Extreme	<ul style="list-style-type: none"> Ensure that..... Work with.... Policy aligned with.... Continue to 		C Possible	2 Major
2.	C Possible	4 Moderate	<ul style="list-style-type: none"> Challenge supplier.... Performance benchmarked against.... 		D Unlikely	5 Minor
3.	B Likely	2 Major	<ul style="list-style-type: none"> 		C Possible	4 Moderate
4.	B Likely	3 Significant	<ul style="list-style-type: none"> 		B Likely	3 Significant
5.	B Likely	3 Significant	<ul style="list-style-type: none"> 		C Possible	3 Significant

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PROJECT Risk Register - TEMPLATE

Project Reference:	
Project Title:	
Report Date:	
Reporting Period:	

LIKELIHOOD	Almost Certain	A	Yellow	Red	Red	Red	Red
	Likely	B	Yellow	Yellow	Red	Red	Red
	Possible	C	Yellow	Yellow	Yellow	Red	Red
	Unlikely	D	Green	Yellow	Yellow	Yellow	Red
	Very Unlikely	E	Green	Green	Yellow	Yellow	Yellow
RISK RATING MATRIX			5	4	3	2	1
			Minor	Moderate	Significant	Major	Extreme
			IMPACT				

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Risk No	Description of key risk	Likelihood	Impact	Consequence	Mitigation Action	Responsibility for action	Milestone or Key Date(s)
	<i>What the key risks that may prevent, or have a significant adverse effect on, successful delivery of the project?</i>	<i>How likely is the risk to occur?</i>	<i>What would be the impact of the risk event occurring?</i>	<i>...of the risk event occurring</i>	<i>What action(s) are in either in place or need to be taken to manage the risk to an acceptable level?</i>	<i>Who is to be responsible for ensuring that the action is progressed?</i>	<i>When does the action need to be in place by?</i>
01.							
02.							
03.							
04.							
05.							



PARTNERSHIP RISK REGISTER - TEMPLATE

This template may be used to formally record the key risks that need to be managed in order to support the delivery of the partnership’s key objectives and outcomes. The purpose of the exercise is not to seek to eliminate or avoid all risks, but to ensure that key risks are understood and that reasonable actions or controls are put in place to manage risks to a level that is acceptable to the individual partners/partnership.

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	Description of key risk	Likelihood	Impact	Consequence	Mitigation Action / Existing Controls in Place	Responsibility for Action	Milestone or Key Date(s)
	<i>What may prevent, or have a significant adverse effect on, successful delivery of the partnership key objectives or outcomes?</i>	<i>How likely is the risk event to occur?</i>	<i>What would be the impact of the risk event?</i>	<i>...of the risk event occurring</i>	<i>What action(s) are in either in place or need to be taken to manage the risk to an acceptable level? What controls are already in place?</i>	<i>Who is to be responsible for ensuring that the action is progressed?</i>	<i>When does the action need to be in place by?</i>
1.							
2.							
3.							
4.							
5.							
6.							

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Southampton City Council Risk Financing Policy 2017/18 - 2020/21

[This policy is an appendix to the Risk Management Policy]

CONTENTS

1. Purpose
2. Definitions
3. Structure, Resources and Accountability
4. Risk Financing Methodology
5. Alternative Risk Transfer
6. Benchmarking
7. Review

1. Purpose

- 1.0 The purpose of Risk Financing Policy, which is a key component of the Council’s Risk Management Policy, is to summarise the Council’s overall approach to risk financing. The Risk Financing Policy will be of particular relevance to the Governance Committee in respect of its responsibility for overseeing the Council’s risk management arrangements.

2. Definitions

- 2.0 **Risk Financing** - “Utilisation of source(s) of funds to pay for insurable losses. Source(s) of funds can be classified as:
- **Internal** - a risk retention arrangement is established to use funds from within the organisation to pay for losses;
 - **External** - a risk transfer arrangement (generally through the purchase of insurance) is established to provide access to funds to pay for losses”.
- 2.1 Although this document refers primarily to self-insurance [risk retention] and external insurance cover, in some cases other risk financing options may be available and these will be referred to as appropriate.

3. Structure, Resources and Accountability

- 3.0 The Council’s Financial Procedure Rules state that the Chief Financial Officer has responsibility ‘to advise the Cabinet on proper insurance cover where appropriate, and effect corporate insurance cover, through external insurance and internal funding’.
- 3.1 The Service Lead: Risk, Assurance, Insurance & Audit reports to the Chief Financial Officer on all strategic risk financing issues and is responsible for ensuring that the adopted policy is implemented and is subject to annual review.
- 3.2 The Council’s Risk Management and Insurance service is responsible for:
- Maintaining adequate and cost effective risk financing measures;
 - Managing the internal self-insurance fund;
 - Providing risk management advice, guidance and support;
 - Arranging, where appropriate, the placement of cover with external insurers including the negotiation of premium rates and policy terms; and
 - The provision of an appropriate insurance claims handling service.

- 3.3 The Council will normally appoint an external independent insurance broker/advisor to support and assist the Council in respect of the periodic tender of its insurance portfolio. The appointment will normally include provision of ongoing support on a retained basis.
- 3.4 The appointment of an insurance broker/advisor will be led by the Service Lead: Risk, Assurance, Insurance & Audit with such an appointment normally taking place at least six months in advance of any renewal (or tender) of external insurances.
- 3.5 External insurance will be procured in accordance the Council's Contract Procedure Rules. The Council will award contracts for the provision of insurance services on the basis of the most economically advantageous terms in respect of price and quality.
- 3.6 The tender of the Council's insurance portfolio will normally take place every three to five years (unless a longer or shorter term contract or agreement is proven to be beneficial to the Council). In accordance with good practice the Council will normally seek to enter into a 'long term agreement' ("LTA") with insurer(s). The LTA, which normally includes a discount on the premium, provides continuity of cover, an element of financial certainty and is in line with the standard market approach.

4. Risk Financing Methodology

- 4.0 An effective risk financing programme is one that provides appropriate and adequate protection for the Council to support and enable current and future service delivery in addition to being able to demonstrate value for money.
- 4.1 The overall objective of the Risk Financing Policy is to ensure that funds are available to pay for insurable losses using the most cost effective sources of finance. In doing so the Council seeks to protect its financial position through the selective purchase of insurance cover and seeks to ensure that the risk financing structure is as financially efficient as possible, whilst accepting that financial certainty has a cost.
- 4.2 The aim is to achieve the optimum balance between self-insurance and external insurance, with the latter intended primarily to protect the Council against the effects of a catastrophic loss and to limit the Council's financial exposure in any one period. The approach seeks to smooth the cost of risk and minimise year on year fluctuations.
- 4.3 The structure of the risk financing programme will be subject to a periodic review, led by the insurance broker/advisor, in order to identify any potential gaps, duplication, etc in cover, and to evaluate self-insurance against other risk transfer options.

- 4.4 The cost of risk (i.e. external insurance premiums and contribution to the internal insurance fund) is apportioned across service areas on an equitable basis via an annual insurance recharge.
- 4.5 It is the responsibility of Service Directors and Service Leaders to ensure that any significant changes in exposure e.g. provision of new services, disposal of properties, outsourcing of services etc are communicated to the Service Lead: Risk, Assurance, Insurance & Audit.
- 4.6 Losses within the insurance deductible are met from the self-insurance fund, which is reviewed on a monthly basis by the Service Lead: Risk, Assurance, Insurance & Audit.
- 4.7 In line with good practice the 'self-insurance fund' is subject to independent actuarial review which is normally undertaken every three years. The review considers whether adequate funds are available to meet current and future liabilities. A summary of the report is provided to the Chief Financial Officer and to the Governance Committee.

5. Alternative Risk Transfer

- 5.0 The Council is committed to securing value for money and securing the most cost efficient source of risk financing. The insurance market for local authorities has traditionally been a specialist market with only a very limited number of insurers prepared to offer cover.
- 5.1 The Council, in consultation with its insurance broker/advisor, will keep abreast of any opportunities in respect of 'alternative risk financing' including consortia purchasing, joint procurement, risk pooling etc. The foregoing options would however only be considered where any such proposals provided an acceptable level of financial certainty and security and a clear cost benefit.

6. Benchmarking

- 6.0 Where appropriate the Council will compare its approach to risk financing with peer authorities and will draw on benchmarking data in order to identify potential gaps in cover or areas for review.

7. Review

- 7.0 This document will be reviewed as per the arrangements for the Risk Management Policy.

Agenda Item 8

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		EXTERNAL AUDIT PLAN YEAR ENDING 31 MARCH 2017	
DATE OF DECISION:		13 FEBRUARY 2017	
REPORT OF:		EXTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	MARTIN YOUNG	Tel: 023 80 382220
	E-mail:	myoung1@uk.ey.com	
Director	Name:	Mel Creighton	Tel: 023 80 834897
	E-mail:	Mel.creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>The external auditor's plan sets out the how they will carry out their responsibilities. Its purpose is to provide the Governance Committee with a basis to review the external auditors proposed scope and audit approach for 2016/17.</p> <p>The plan summarises the external auditors initial assessment of the key risks driving the development of an effective audit for the Council, and outlines their planned audit strategy in response to those risks.</p>			
RECOMMENDATIONS:			
	(i)	The Governance Committee is invited to comment on and note the External Audit Plan Year Ending 31 March 2017 as attached.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	In accordance with the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None.		
DETAIL (Including consultation carried out)			
3.	The External Audit Plan Year Ending 31 March 2017 has been provided to relevant senior managers for comment.		
RESOURCE IMPLICATIONS			
<u>Capital/Revenue</u>			
4.	None.		
<u>Property/Other</u>			
5.	None.		
LEGAL IMPLICATIONS			
<u>Statutory power to undertake proposals in the report:</u>			
6.	Local Audit and Accountability Act 2014, the National Audit Office's 2015		

	Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements	
<u>Other Legal Implications:</u>		
7.	None	
POLICY FRAMEWORK IMPLICATIONS		
8.	None.	
KEY DECISION?		No
WARDS/COMMUNITIES AFFECTED:		None
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	The External Audit Plan Year Ending 31 March 2017	
Documents In Members' Rooms		
1.	None.	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents		
Equality Impact Assessment and Other Background documents available for inspection at:		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
2.	None.	

Southampton City Council

Year ending 31 March 2017

Audit Plan

24 January 2017

Ernst & Young LLP



Building a better
working world

Governance Committee Members
Southampton City Council
Civic Centre
Southampton
Hampshire
SO14 7LY

24 January 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Governance Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 13 February 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Southampton City Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended; and
- ▶ our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

The significant matters that we identified as relevant for planning our audit, and our proposed responses, are provided in sections two and three of this report.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias; ▶ evaluating the business rationale for significant unusual transactions; and ▶ evaluating the appropriateness of accounting policies against Code guidance and for changes from the prior period.

Non-significant financial statement risks

Paris adult social care system	
<p>In our 2015/16 Audit Results Report we reported our findings in respect of the Paris adult social care system. We supported Internal Audit's findings and highlighted:</p> <ul style="list-style-type: none"> • weaknesses in the invoicing process; and • the absence of a formal reconciliation between Paris and the main accounting system. <p>In 2016/17, the Council has undertaken a review of the processes and controls in this system. A paper was taken to the November 2016 Governance Committee, reporting the issues identified and recommendations made to resolve them.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ completing our walkthrough of the Paris system, to ensure we fully understand the improvements made by management; ▶ reviewing any follow up work performed by Internal Audit on the implementation of recommendations from their original report; ▶ testing the formal reconciliation between Paris and the main accounting system, Agresso; and ▶ testing the appropriateness of adult social care payments to prime supporting documentation to confirm their validity. <p>We intend to perform testing on the first nine months' transactions during our interim visit in February 2017. This will help us to identify any emerging issues early.</p> <p>We have already engaged with the Council's finance team to make arrangements for this work.</p>

Financial statements presentation – Expenditure and Funding Analysis and Comprehensive income and expenditure statement

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

In past years we have observed, and the Council has recognised, that the process for generating the financial statements from the ledger is complex. This change in reporting requirement could provide an opportunity to streamline this process which could reduce the time taken to produce the financial statements moving forward.

Our approach will focus on:

- ▶ reviewing the 'Expenditure and Funding Analysis', CIES and new notes to ensure disclosures are in line with the Code;
- ▶ reviewing the working papers supporting the derivation of these figures, how the ledger system has been re-mapped to reflect the Council's organisational structure; and
- ▶ agreement of restated comparative figures back to the Council's segmental analysis, supporting working papers and ledger.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;

- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness on its use of resources. For 2016/17 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements. However, these are not separate and auditors are not required to reach a distinct judgement against each one:

Sub-Criteria	Proper Arrangements
Informed decision making	Acting in the public interest, through demonstrating and applying the principles and values of sound governance
	Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management
	Reliable and timely financial reporting that supports the delivery of strategic priorities
	Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
	Managing and utilising assets effectively to support the delivery of strategic priorities
	Planning, organising and developing the workforce effectively to deliver strategic priorities
Working with partners and other third parties	Working with third parties effectively to deliver strategic priorities
	Commissioning services effectively to support the delivery of strategic priorities
	Procuring supplies and services effectively to support the delivery of strategic priorities

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant risk which we view as relevant to our value for money conclusion.

Significant value for money risks

Sustainable resource deployment - The Council's ability to deliver the savings required to support the sustainable delivery of services.

Background

Reductions in central government funding, coupled with demand lead pressures on services, mean that the Council is continuing to experience financial pressures.

The Council's 2016/17 budget, approved in February 2016, included a savings requirement of £33.7 million. The Council identified planned savings of £29.8 million to address the budget gap for the year. The residual budget gap of £3.9 million was planned to be addressed by the use of reserves. The Council recognises that reserves cannot, and should not, be used to bridge the revenue budget gap in the absence of longer term plans to make necessary savings. This is evident from the Medium Term Financial Strategy which plans no future use of reserves to address budget gaps.

The latest publically available financial monitoring report is as at the end of September 2016. These show that the Council is forecasting an over spend at year end of £3.5 million against their working budget. The key contributory factors are cost and demand pressures within social care coupled with reductions in expected Transformation savings. These contribute to the forecast shortfall of £5.3 million in the delivery of savings proposals. The Council has identified a number of specific actions to manage these issues and has drawn up recovery action plans to minimise any pressure carried forward into 2017/18.

An update to the Council's Medium Term Financial Strategy was taken to Cabinet in November 2016 which included draft proposals for eliminating the budget gap in the next two years by reducing cost and generating income of £21.3 million in 2017/18 increasing to £31.6 million in 2018/19. The Council's approach to addressing their budget gap has focused on:

- the implementation of outcome based budgeting to clearly link business planning and budgeting and focus on service outcomes;
- business as usual budget reviews throughout the year; and
- progressing the Transformation Programme through Service Delivery and Redesign Proposals.

The delivery of plans to address the budget gap are crucial in making the future financial position of the authority sustainable.

Our audit approach

Our approach will focus on:

- ▶ reviewing achievement of the 2016/17 budget. A strong history of managing service delivery to budget, provides comfort over the Council's ability to set realistic and achievable budgets in the future;
- ▶ reviewing achievement of planned savings in 2016/17. A strong history of meeting planned efficiency and income generation targets provides comfort over the Council's ability to set realistic targets and achieve efficiency plans in the future; and
- ▶ reviewing the arrangement in place to deliver the savings plans in 2017/18 onwards.

We will keep our risk assessment under review throughout our audit and communicate to the Governance Committee any revisions to the significant risk identified here and any additional local risk-based work we may need to undertake as a result.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ accounts receivable;
- ▶ accounts payable;
- ▶ housing benefit;
- ▶ Income collection and banking;
- ▶ non domestic rates; and
- ▶ payroll.

Working papers

We will work closely with the Council during our site visit in February 2017 to agree a comprehensive client assistance schedule (working paper request). We will specifically highlight high priority and more complex areas.

In 2015/16, the working papers were not all available at the beginning of the audit although a schedule of working papers and contacts was provided.

It is important that working papers are provided to the agreed timetable, especially as we work in partnership with the Council to transition towards achieving the early closure and audit of the financial statements in 2017/18.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Governance Committee.

Internal audit

As in prior years we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our reporting where we raise issues that could have an impact on the year-end financial statements. Where relevant, we will seek to use the work of internal audit if they have covered the key controls we wish to test in the Council's key processes outlined above.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	Council actuary, auditor's specialist including EY pensions team.
Property, plant and equipment	Council valuers.

In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;

- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ significant disclosures included in the financial statements;
- ▶ entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ auditor independence.

Procedures required by the Code

- ▶ reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- ▶ reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is approximately £13.7 million based on 2% of gross revenue expenditure on services. We will communicate uncorrected audit misstatements greater than £682,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative scale fee for the audit of Southampton City Council is £142,715.

4.6 Your audit team

The engagement team is led by Helen Thompson. Helen is supported by Martin Young who is responsible for the day-to-day direction of audit work and is the key point of contact.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Governance Committee's cycle in 2016. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Governance Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Governance Committee timetable	Deliverables
High level planning	Ongoing	Issued 7th April 2016 Reported July 2016	Audit Fee Letter
Risk assessment and setting of scope of audit	Dec 2016 - January 2017	February 2017	Audit Plan
Testing of routine processes and controls	February 2017	April 2017	Progress Report
Year-end audit	June – July 2017	July 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and overall value for money conclusion). Reporting to the NAO on the Whole of Government Accounts return (dependent on the timing of completion of the Whole of Government Accounts return).
Completion of audit	July 2017	July 2017	Audit Completion certificate (dependent on the timing of completion of the Whole of Government Accounts return).
Conclusion of reporting	August - September 2017	September 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ the safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ the overall assessment of threats and safeguards; and ▶ information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ details of non-audit services provided and the fees charged in relation thereto; ▶ written confirmation that we are independent; ▶ details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ an opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment. At the present time, the Council has not commissioned any non-audit services from EY.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
Opinion Audit and VFM Conclusion	142,715	142,715	142,715
Total Audit Fee – Code work	142,715	142,715	142,715
Certification of claims and returns	19,005	19,005	19,524

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ officers meet the agreed timetable of deliverables;
- ▶ internal controls continue to operate effectively for the key processes outlined in section 4.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ our accounts opinion and value for money conclusion are unqualified;
- ▶ appropriate quality of documentation is provided by the Council; and
- ▶ the Council maintains an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Governance Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Report to those charged with governance
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance Committee may be aware of 	▶ Report to those charged with governance

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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