South Somerset District Council

Public Document Pack

Audit Committee

Thursday 22nd October 2020

10.00 am

A virtual meeting via Zoom Meeting Software

The following members are requested to attend this meeting:

Chairman: Martin Carnell
Vice-chairman: Mike Hewitson

Robin Bastable	Malcolm Cavill	Robin Pailthorpe
Mike Best	Brian Hamilton	Jeny Snell
Dave Bulmer	Paul Maxwell	

Any members of the public wishing to address the meeting at Public Question Time need to email democracy@southsomerset.gov.uk by 9.00am on Wednesday 21st October 2020.

The meeting will be viewable online by selecting the committee meeting at:
https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA

For further information on the items to be discussed, please contact
democracy@southsomerset.gov.uk

This Agenda was issued on Wednesday 14 October 2020.

Alex Parmley, *Chief Executive Officer*

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

Information for the Public

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;

14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;

15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Section 151 Officer, the Monitoring Officer, or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;

17. The Audit Committee will request action through District Executive if any issue remains unresolved;

18. The Audit Committee will report to each full Council a summary of its activities.

Members questions on reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Audit Committee

Meetings of the Audit Committee are usually held bi-monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently. However during the coronavirus pandemic these meetings will be held remotely via Zoom video-conferencing and the starting time may vary.

For more details on the regulations regarding remote/virtual meetings please see the Local Authorities and Police and Panels (Coronavirus) (Flexibility of Local Authorities and Police and Crime Panel Meetings (England and Wales) Regulations 2020 as part of the Coronavirus Act 2020.

Agendas and minutes of this committee are published on the Council's website at http://modgov.southsomerset.gov.uk/ieDocHome.aspx?bcr=1

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device, install, and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

Public participation at meetings (held via Zoom)

Public question time

We recognise that these are challenging times but we still value the public's contribution to our virtual meetings.

If you would like to address the virtual meeting during Public Question Time, please email democracy@southsomerset.gov.uk by 9.00am on Wednesday 21 October. When you have registered, the Chairman will invite you to speak at the appropriate time during the virtual meeting.

The period allowed for participation in Public Question Time shall not exceed 15 minutes except with the consent of the Chairman and members of the Committee. Each individual speaker shall be restricted to a total of three minutes.

This meeting will be streamed online via YouTube at:
https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA

Virtual meeting etiquette:

- Consider joining the meeting early to ensure your technology is working correctly.
- Please note that we will mute all public attendees to minimise background noise. If you have registered to speak during the virtual meeting, the Chairman or Administrator will un-mute your microphone at the appropriate time. We also respectfully request that you turn off video cameras until asked to speak.
- Each individual speaker shall be restricted to a total of three minutes.
- When speaking, keep your points clear and concise.
- Please speak clearly – the Councillors are interested in your comments.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:
http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf

Audit Committee

Thursday 22 October 2020

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meetings held on 25 June 2020 and 30 July 2020.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on 26 November 2020, and likely to be held virtually using Zoom

Items for Discussion

6. Audit Committee Forward Plan (Pages 6 - 8)

7. External Audit Progress Report (Pages 9 - 35)

8. Internal Audit Annual Activity Report 2020/21 (Pages 36 - 62)

9. Treasury Management Practices (Pages 63 - 101)

10. 2020/21 Treasury Management Mid-Year Performance Report and Strategy Update (Pages 102 - 129)

11. Risk Management Update (Pages 130 - 135)

Audit Committee Forward Plan

Lead Officer: *Becky Sanders, Case Officer (Strategy & Commissioning)*
Contact Details: *becky.sanders@southsomerset.gov.uk*

Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendation

Members are asked to comment upon and note the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

Background Papers: *None*

Audit Committee Forward Plan

Meeting Date	Item	Responsible Officer
26 Nov ‘20 (additional meeting date)	Approve Annual Statement of Accounts	Finance Specialist
	Annual Governance Statement	S151 Officer
	External Audit – Audit Findings Report	S151 Officer (GT)
	External Audit – Annual Audit Letter	Finance Specialist (GT)
28 Jan ‘21	External Audit – Certification of Housing benefit Subsidy Claim	Finance Specialist (GT)
	Internal Audit Plan Progress Report 2020/21 – Q3	Alastair Woodland (SWAP)
	Treasury Management Strategy Statement 2021/22 (to go on to Council)	Finance Specialist
	Revenues & Benefits Update Report	Director (Service Delivery) Lead Specialist (Communities)
25 Mar ‘21	Internal Audit Plan and Charter 2021/22	Alastair Woodland (SWAP)
	External Audit Plan for 2020/21 Accounts	Finance Specialist (GT)
	External Audit Progress Report 2020/21 Accounts	Finance Specialist (GT)
	Health & Safety Update	Director – Strategy & Commissioning
	Civil Contingency Update	Director – Strategy & Commissioning
	Whistleblowing Update	Director – Strategy & Commissioning
27 May ‘21	Review of Internal Audit	S151 Officer
	Internal Audit Plan Progress Report 2020/21 – Q4	Alastair Woodland (SWAP)
	Internal Audit Annual Report and Opinion 2020/21	Alastair Woodland (SWAP)
	Annual Treasury Management Activity Report 2020/21 (to go on to Council)	Finance Specialist

29 July '21 (week later than normal)	Annual Governance Statement	S151 Officer
	External Audit – Audit Findings Report	S151 Officer (GT)
	Internal Audit Plan Progress Report 2021/22 – Q1	Alastair Woodland (SWAP)
	Approve Annual Statement of Accounts	Finance Specialist / S151 Officer
Oct '21	Internal Audit Plan Progress Report 2021/22 – Q2	Alastair Woodland (SWAP)
	Treasury Management Practices	Finance Specialist
	Treasury Management Mid-Year Performance and Strategy Update (to go on to Council)	Finance Specialist
	External Audit – Annual Audit Letter	Finance Specialist (GT)
TBC	*Annual Fraud Programme Update*	*TBC*
	Monitoring the recommendations of SWAP following audits.	*Alastair Woodland (SWAP)*

External Audit Progress Report

Director *Nicola Hix, Director - Support Services*
S151 Officer: *Jo Nacey*
Lead Officer: *Paul Matravers, Specialist (Finance)*
Contact Details: *paul.matravers@southsomerset.gov.uk or (01935) 462275*

Purpose of the Report

This report introduces Grant Thornton's Audit Progress and Sector Update Report for the year ending March 2020.

Recommendation

The Audit Committee are asked to note the Audit Progress and Sector Update Report.

Background

The report from Grant Thornton, the Council's external auditor, provides the Audit Committee with an update on progress in delivering their responsibilities to the Council and its stakeholders.

A substantial element of the report provides a detailed update on COVID-19 and the impact this has had on working arrangements for the external auditor, the impact on accounts and audit opinion and the resulting changes to reporting requirements.

The report also provides a summary of emerging national issues and developments, and includes a number of challenge questions the committee may wish to consider regarding these.

Financial Implications

None for the purposes of this report.

Background Papers

None.

Audit Progress Report and Sector Update

South Somerset District Council
Year ending 31 March 2020

22 October 2020

Contents

Section	Page
Introduction	3
Progress at October 2020	4
Audit Deliverables	6
Covid-19	7
Sector Update	17

Introduction

Barrie Morris

Engagement Lead

T 0117 305 7708
E barrie.morris@uk.gt.com

Page 12

Beth Garner

Engagement Manager

T 0117 305 7726
E beth.ac.garner@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at October 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in January 2020, and interim audit in February and March 2020. We began the bulk of our work on your draft financial statements in recent weeks. Our work around the significant risk areas was started in late July 2020.

In March 2020 we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the 30 November 2020, however there may be a delay to this due to the timing of resources, the quantum of work required and the additional challenges of remote working.

Covid-19

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 26 March 2020, the Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response. On 22 April 2020, we issued an addendum to our audit plan, setting out a new significant financial statement risk in relation to Covid-19.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value for Money Conclusion at the same time as our opinion on the financial statements, i.e 30 November 2020.

The NAO consultation on a new Code of Audit Practice (the “Code”) has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation ran until 2 September 2020. The NAO will now analyse all consultation responses received and consider what changes are required to the draft guidance. Please see page 19 for more details.

Progress at October 2020 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The certification work for the 2019/20 claim is due to start later this year.

The original deadline of the 30 November has been extended by the DwP, moving the reporting date back to 31 January 2021 and we plan to be able to complete our work by the updated deadline.

We will report our findings to the Audit Committee in our Certification Letter in January 2021.

Meetings

We have met with senior Finance Officers regularly during the year both as part of our regular liaison meetings and on an ad-hoc basis to discuss emerging issues and developments. The aim of these discussions is to ensure that there are no surprises arising from our audit work, share emerging issues in relation to the accounts as a result of Covid and to ensure the audit process is smooth and effective. We also met with your Chief Executive in March 2020 and September 2020 to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February 2020, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee through our Audit Plan.

The impact of Covid and the need to work remotely has also seen increases in the time taken to complete the audit which may lead to further additional costs needing to be charged.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Risk Assessment of the Council's Value for Money arrangements.	March 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the November Audit Committee.	November 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	January 2020	Not yet due

COVID-19 Update

Impact on working arrangements:

- Following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices. Many have now re-opened, but with a significantly reduced capacity. In line with updated Government guidance, all staff are being encouraged to work from home whenever they can which, in reality, means that the vast majority of our people are still working from home.
- We are working remotely during your accounts audit. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.
- There may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of Covid-19.

Impact on accounts and audit opinions:

There are a number of key issues which your finance team will have had to consider as part of the year end closedown and accounts production:

- impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations.
- valuation of Property, Plant & Equipment and assumptions made by valuers, particularly in respect of carrying value to current value assessment.
- impact on collectability of debt and assumptions made in bad debt provisions.
- impact on post-balance sheets events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure will be needed.
- disclosure of impact in narrative report.
- disclosure of critical judgements and material estimation uncertainties.
- impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- impact on reporting to those charged with governance and signing arrangements.

Changes to reporting requirements:

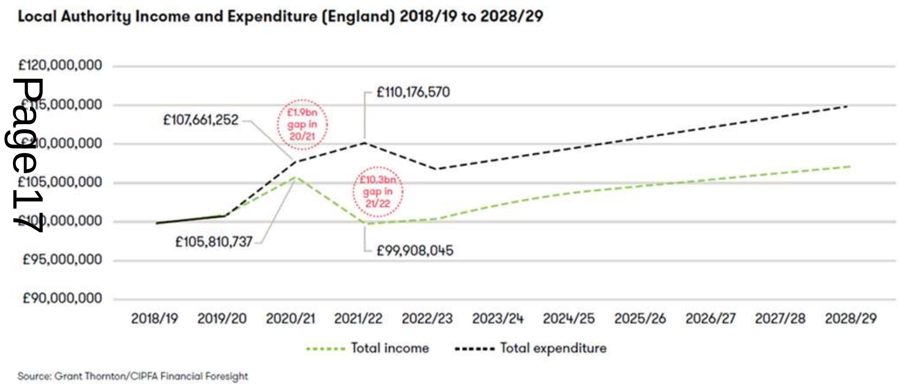
- The Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 31 August 2020.
- For principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

Covid-19 update – Grant Thornton

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.



Page 17

Financial Foresight (a Grant Thornton future look analytics platform building on our CFO Insights and Place Analytics data) forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part countervail the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to priortise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

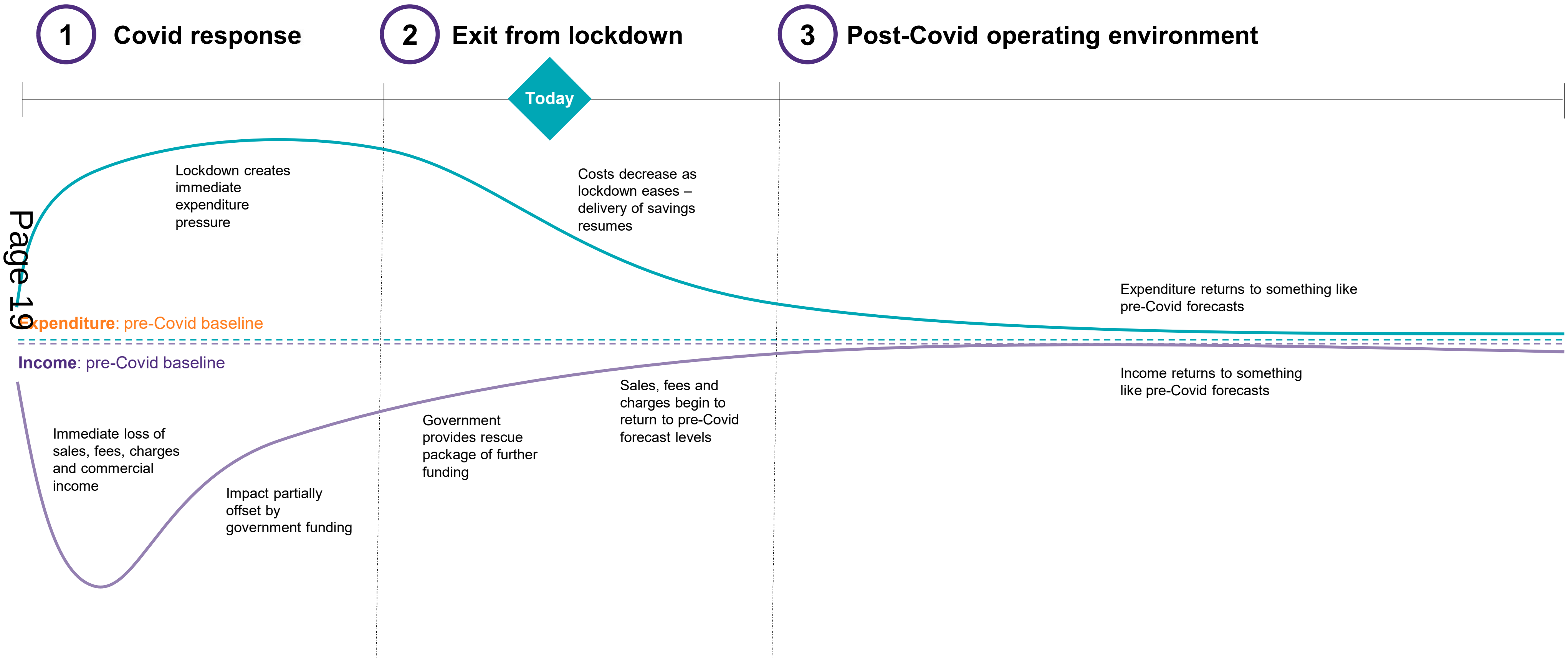
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully been produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services.

Example scenarios

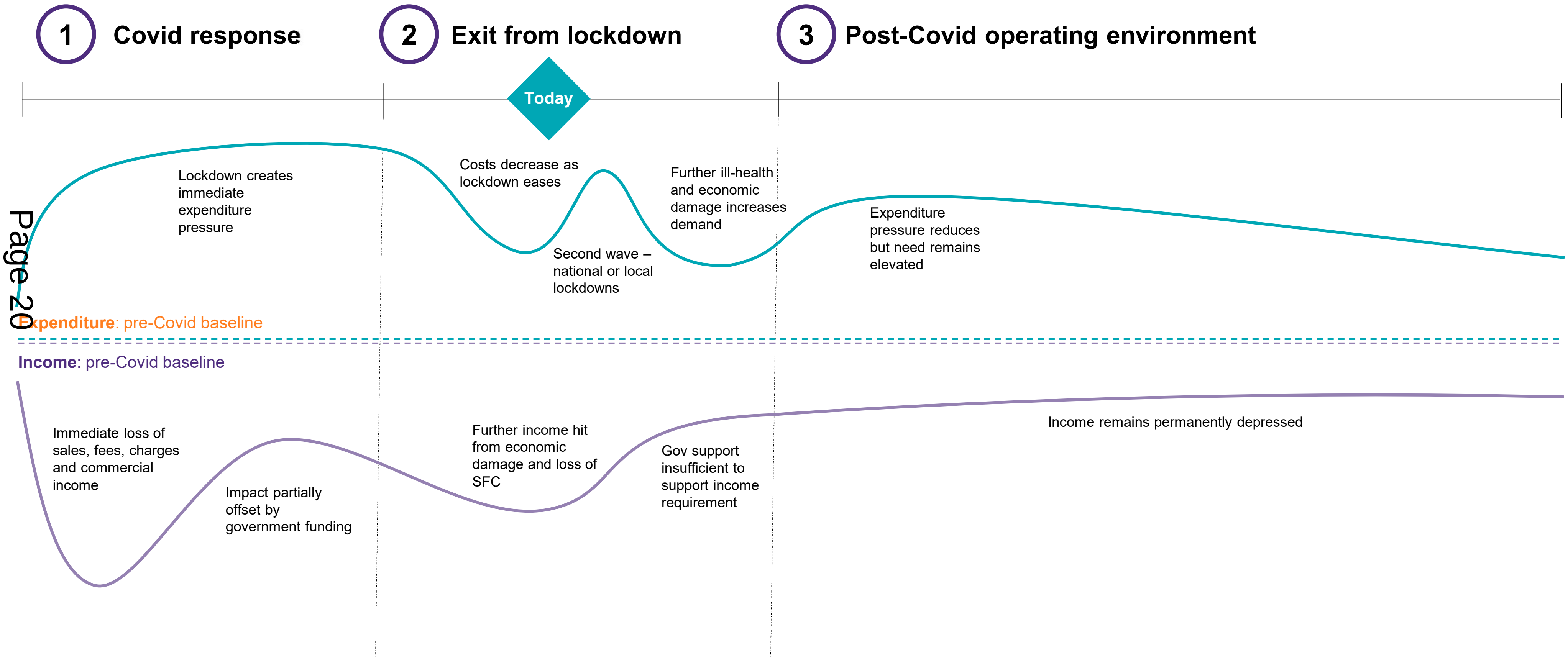
Scenario 1 – swift return to normality



Page 19

Example scenarios (Cont'd)

Scenario 2 – second wave and ongoing disruption



Page 20

Scenarios and hypotheses
Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community	• Multiple lockdowns and ongoing disruption • Community dependency and expectation of sustained response • Turbulence and activism within the VCS • Socio-economic inequality is compounded • Failure of leisure and cultural services	• Smooth exit from lockdown to a “new normal” • Community mobilisation is channelled into ongoing resilience • Strengthened VCS relationships and focus • Systemic response to inequality is accelerated • Leisure and cultural services adapted to social distancing
Business & economy	• 16% reduction in GVA for 2020 based on OBR reference scenario • Slow / uneven economic recovery and “long tail” on unemployment • Central gov / BEIS focus investment on areas furthest behind • Loss of tourist & student spend causes unmitigated damage • 'V' shaped recovery results in 2-3 year recovery period	• 5-10% reduction in GVA • Rapid economic recovery with employment levels close behind • Central government “back winners” with investment • Adaptation allows resumption of tourist and student economy • Business base is weighted towards growth sectors
Health & wellbeing	• Increased demand and escalating need due to fallout from lockdown • Newly-vulnerable cohorts place strain on the system • Unit costs increase further as markets deteriorate and providers fail • SEND transport unable to adapt to social distancing • Imposed disruption of care system	• Positive lifestyle changes and attitudes to care reduce demand • Needs of newly vulnerable cohorts met through new service models • New investment in prevention and market-shaping manage costs • New ways of working leading to stronger staff retention • Locally-led reform of health and care system
Political & regulatory	• Local government side-lined by a centralised national recovery effort • Unfunded burdens (e.g. enforcement and contact-tracing) • Councils in the firing line for mismanaging recovery	• Local government empowered as leaders of place-based recovery • Devolution and empowerment of localities • Councils at the forefront of civic and democratic renewal
Environment	• Opportunity missed to capture and sustain environmental benefits • The end of the high street / town centres • Emissions and air quality worsened by avoidance of public transport • Capital programmes stuck	• Ability to invest in transport modal shift and green infrastructure • Changed working patterns rejuvenate town centres • Sustained impact on emissions due to new behaviours • New, shovel-ready infrastructure programmes
Organisational	• Inadequate funding forces fiscal constraint • Working practices return to status quo – increased operating costs • Imposed structural change within the place • Austerity 2 • Commercial portfolio becomes a liability	• Adequate funding enables a programme of targeted investment • Learning and adaptation to new operating environment • Energised system-wide collaboration and reform • Fiscal reform and civic renewal • Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?
- Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf

Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

Page 25

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

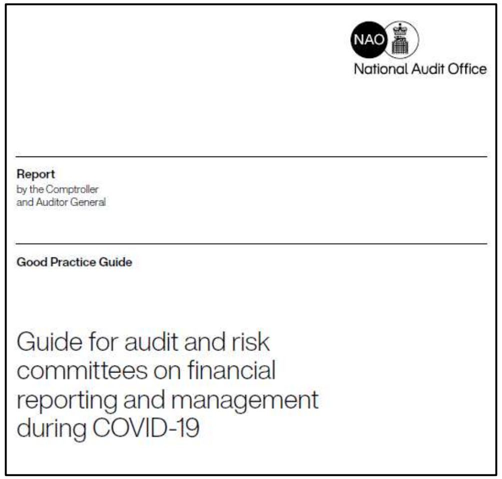
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/


NAO
National Audit Office

Report
by the Comptroller and Auditor General

Good Practice Guide

Guide for audit and risk committees on financial reporting and management during COVID-19

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

The Redmond Review

The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – “The Redmond Review” was published on 8 September.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority’s annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes “A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process.”

Key recommendations in the report include:

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council’s (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities - the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- Accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.

The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

Value for Money - Key changes

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:
https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report "draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams".

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that "PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme".

The full report can be obtained from the PSAA website:

https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

• **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

• **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers form the service sectors who are very likely to lose their jobs because of the pandemic.

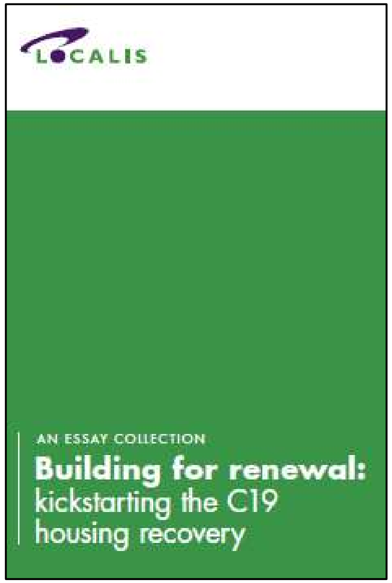
• **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

• **Building on existing initiatives to improve security of tenure and quality of accommodation**, a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/

Place-Based Growth - 'Unleashing counties’ role in levelling up England’ – Grant Thornton

In March Grant Thornton launched a new place-based growth report ‘Unleashing counties’ role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into placed-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

• Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.

• In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.

• Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnesses sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country’s figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report’s key recommendations include:

• Rather than a focus on the ‘north-side divide’, government economic and investment assessments should identify those places where the economic ‘gap’ is greatest – Either to the national average or between different places –and focus investment decisions on closing that gap and levelling up local economies.

• The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.

• Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed ‘building blocks’ for growth – powers, governance, funding and capacity.

• Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

• The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/

Local government reorganisation in two-tier shire counties – County Councils' Network

The County Councils' Network (CCN) has published new independent evidence on the implications of local government reorganisation in two-tier shire counties ahead of the publication of the government's 'devolution and local recovery' white paper.

The report identifies considerations relating to:

- the costs associated with disaggregation;
- what this might mean in terms of risk and resilience of service provision;
- how service performance might be impacted;
- what it could mean for the place agenda; and
- issues arising from the response to Covid-19.

The report also sets out the financial implications of four unitary scenarios:

- Establishing one unitary authority in every two-tier area in England.
- Establishing two new unitary authorities in every two-tier area in England.
- Establishing three new unitary authorities in every two-tier area in England.
- Establishing two new unitary authorities and a children's trust in every two-tier area in England.

CNN note "With councils in shire counties facing billions in rising costs for care services, alongside financial deficits caused by the Coronavirus pandemic, the study from PricewaterhouseCoopers (PwC) shows merging district and county councils in each area into a single unitary council could save £2.94bn over five years nationally."

CNN go on to comment "The report concludes a single unitary in each area would reduce complexity and give communities a single unified voice to government. It would provide a clear point of contact for residents, businesses and a platform to 'maximise' the benefits of strategic economic growth and housing policy; integral to the 'levelling-up' agenda and securing devolution.

However, the report shows replacing county and districts with two unitary authorities in each area would reduce the financial benefit by two-thirds to £1bn over five years, with three unitary authorities delivering a net loss of £340m over the same period. A fourth scenario of a two-unitary and children's trust model in each county would deliver a net five year saving of £269m.

Alongside a minimum £1.9bn in additional costs from splitting county council services, the report outlines the establishment of multiple unitary authorities in each area creates the risk of disruption to the safeguarding of vulnerable children, while 'instability' in care markets could impact on the quality and availability of support packages and care home placements."

The full report can be obtained from the County Councils' Network website:

https://www.countycouncilsnetwork.org.uk/new-analysis-reveals-that-single-unitary-councils-could-deliver-3bn-saving-over-five-years-and-maximise-the-benefits-of-economic-growth-and-housing-policy/

Local government reorganisation in two-tier shire counties – District Councils' Network

The District Councils' Network (DCN) a report ahead of the publication of the government's 'devolution and local recovery' white paper.

The report comments "Devolution should back the success of districts in delivery. It should not distract from the local recovery effort or reduce delivery capacity through forcing reorganisation into a less local, less agile, less responsive local government pushed by interests wanting county unitary councils everywhere. Local governance is a local matter, places must be free to decide how to organise services and to progress any kind of reform only where there is significant local agreement."

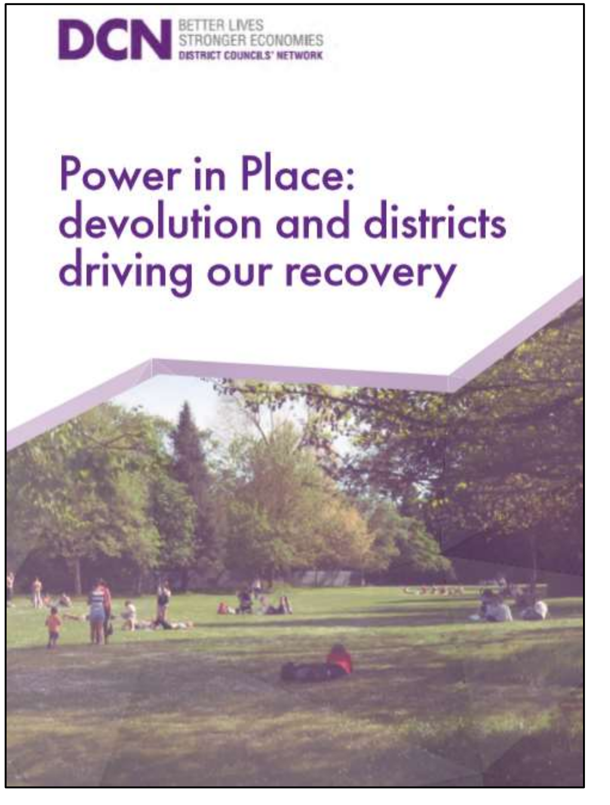
The report calls for the Devolution and Local Recovery White Paper to:

1) Deliver genuine devolution that moves quickly to drive local growth
2) Retain and build on the local capacity to deliver
3) Empower real-world economies
4) Continue to anchor local government in local communities
5) Reject false arguments that bigger local government is better or cheaper local government
6) Support strategic leadership across wider functional economic areas
7) Introduce an upper limit for the size of new unitary councils, in line with the principle of electoral equality

The report includes a number of case studies in each of these areas.

The full report can be obtained from the District Councils' Network website:

https://districtcouncils.info/wp-content/uploads/2020/08/DCN-Report-Sept-1.pdf



CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

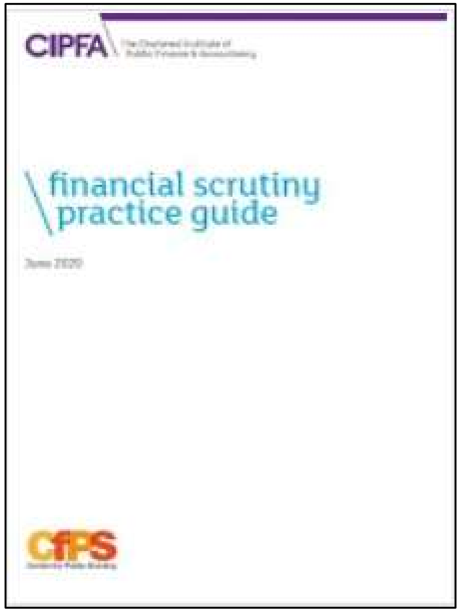
For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide

An instinct for growth™

grantthornton.co.uk

Internal Audit Annual Activity Report 2020/21

Head of Service: *Dave Hill, Chief Executive - SWAP*
Lead Officer: *Alastair Woodland - Assistant Director*
Contact Details: *Alastair.Woodland@swapaudit.co.uk*

Purpose of the Report

To update members on the Internal Audit Plan 2020-21 progress and bring to their attention any significant findings identified through our work. The report aims to provide assurance to the Audit Committee regarding the effectiveness of the control environment operated by and on behalf of the council and highlight any significant matters to be addressed by management.

Recommendation

Members are asked to note progress made in delivery of the 2020/21 internal audit plan.

Background

The Internal Audit function plays a central role in corporate governance by providing assurance to the Audit Committee over the effectiveness of internal controls, governance and risk management. The 2020-21 Annual Audit Plan was approved by the Audit Committee at its May 2020 meeting and is to provide independent and objective assurance on SSDC's Internal Control Environment and this work will support the Annual Governance Statement.

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *Internal Audit Plan and Charter 2020/21 – May 2020*

South Somerset District Council

Report of Internal Audit Activity

Plan Progress 2020/21 October 2020

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

David Hill
Chief Executive
Tel: 01935 848540
david.hill@swapaudit.co.uk

Alastair Woodland
Assistant Director
Tel: 07720312467
alastair.woodland@swapaudit.co.uk

Summary:

Contents	Page 1
Role of Internal Audit	Page 2

Control Assurance:

Internal Audit Work Programme	Page 3
Significant Corporate Risks	Page 4
Summary of Limited or No Assurance Opinions	Pages 4-7
Summary of Follow Ups	Page 8-10

Plan Performance:

SSDC Plan Performance	Page 11
Approved Changes to the Audit Plan	Page 12

Appendices:

Appendix A – Audit Framework Definitions	Page 13
Appendix B – Summary of Work Plan	Pages 14-16
Appendix C – Summary of Recommendations	Pages 17 - 25

Internal Audit Plan Progress 2020-21

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting in May 2020.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in May 2020. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Internal Audit Plan Progress 2020-21

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 3 being minor or administrative concerns to 1 being areas of major concern requiring immediate corrective action.

Internal Audit Work programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2020/21. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective "assurance opinion" rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit "Audit Framework Definitions" as detailed on **Appendix A** of this document.

The following table summarised Audits finalised during quarter 2 2020/21:

Audit Area	Quarter	Status	Opinion
2020/21			
NEW: Health & Wellbeing	2	Final	Reasonable
NEW: Grant Funding Schemes Assurance for Local Authorities (Risk Assessment)	2	Final	Advisory
Combined Follow Up	2	Final	Follow Up
Project Governance – Regeneration	2	Final	Limited

Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee

- **Limited or No Assurance Opinions**
- **Follow-ups**

Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports and these are detailed in **Appendix A**. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant corporate risks.

Summary of Work Completed – Limited or No Assurance Opinions

Project Governance – Regeneration – Limited Assurance.

The objective of this review was to assess the effectiveness of the Project Governance arrangements in place to manage the Regeneration Projects. We reviewed the project management arrangements for a selection of projects under the following three regeneration programmes:

- Yeovil Refresh
  - Public Realm
  - Transport Access Strategy
  - Car Park Review
- Chard Town Centre Regeneration
  - Leisure centre
- Wincanton Town Centre
  - Property Initiative
  - Events Programme

We also looked at the overall governance arrangements for monitoring and reporting of the whole programmes.

Whilst a Terms of Reference (TOR) have been drawn up for the Strategic Development and three Regenerations Programme Boards, they do not state which reports should be presented e.g. financial budget reports, risk registers and project progress. Our testing also identified inconsistencies with the provision of these key reports, creating a risk that the Boards are not be provided with sufficient information to evaluate that the projects are

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee

- **Limited or No Assurance Opinions**
- **Follow-ups**

Summary of Work Completed – Limited or No Assurance Opinions

progressing as intended (both financially and in terms of delivering outcomes) and take action where required. It was also noted that the Terms of Reference do not stipulate what quorate is required which could have an impact on decision making effectiveness.

Further clarification is also required to what decisions are made regarding the Regeneration Programmes at the Strategic Development Board.
Our review also highlighted that there is no Programme Management Framework in place at the Council which has resulted in inconsistent practices in place. The lack of a Project Management Office has resulted in officers not having any guidance from SSDC on how to run and manage projects.

It is noted that the experience and knowledge of the current Regeneration Project Management teams has reduced the risk of outcomes not being achieved due to poorly managed projects. In addition, the Interim Regeneration Programme Manager has started to introduce some templates and documents including standard reporting and formal risk registers which were discussed at the Strategic Development Board in June 2020 which will provide the boards with greater oversight going forwards. The permanent Regeneration Programme Manager is keen to continue this standardisation and contribute to the production of a Programme Management Framework and it is anticipated that these developments will ensure greater governance going forwards.

The Priority 1 & 2 recommendations can from this review can be view from **Appendix C** at the end of this report.

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee

- **Limited or No Assurance Opinions**
- **Follow-ups**

Summary of Work Completed

Health & Wellbeing – Reasonable Assurance

I have provided some information on this review as members specifically requested assurance in this area. The objective of this audit was to ensure staff have suitable access to health and wellbeing support and are signposted to the relevant support should a need be identified by themselves or others. Specific areas we looked at and tested for effectiveness included:

- 1-2-1s are taking place on a monthly basis and cover the employee's health and wellbeing along with performance monitoring.
- Absence levels and leave requests are monitored to ensure staff are taking the time they need to process their own mental health but are also not meeting defined absence trigger levels.
- Support services (internal and external) are in place and staff are made aware of the provision of these services and how to access them.
- Monitoring dashboard is in place to compare data on staff health and wellbeing
- 'Pulse surveys' are undertaken to assess 'health and wellbeing' across the organisation. Survey results are reviewed, and results analysed to identify areas where improvements can be made.
- Risk assessments have been carried out for home working and for those who are still working in the community, these risk assessments include covid-19 risk of transmission as well as the standard H&S concerns. (Limited assurance as home assessments only just issued and only Covid-19 risk assessments received)
- The Council's initiatives on Health and Wellbeing are being effectively communicated across all staff.

We found the Council have put a suite of support options in place to help all members of staff manage their health and wellbeing. The external support in place is confidential and available 24 hours a day, 7 days a week. The Council only receives reports on the number of staff making use of the services, not the names or reason for the support. Work has been done to inform all staff of the services on offer and this has been clearly communicated via emails, the staff portal and staff briefings. While it has all been clearly communicated, the uptake on support has been lower as the new services embed. However, the uptake of webinar sessions was higher compared to larger local County Councils. There has been an increase in the amount of absences due to mental health reasons for the beginning of the current financial year and this shows that there is a need for support across the Council for those

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee

- **Limited or No Assurance Opinions**
- **Follow-ups**

Summary of Work Completed

who require it. However, this can be seen positively that people feel able to report the actual, rather than a false reason for their absence and could demonstrate a shift in the stigma and changing culture.

Risk assessments have been completed for staff out in the community and for those who may need to work from the offices, with suitable mitigation put in place to reduce the risk of staff catching Covid-19. Working from home risk assessments have recently been sent out to all staff working from home. These should identify if staff need any equipment to help them when working from home. Since these are still being completed, no analysis of the results or the implementation of required changes could be completed.

The area that does require the most work is the consistency of 1-2-1s for all staff. A sample of officers were spoken to and the majority reported that they were missing 1-2-1s or they had stopped. This is an important control for checking-in with staff to discuss their work, their health and wellbeing and if there is any support required. While a new template for this has been created and ensures discussions of health and wellbeing is put at the centre of the meeting, this only works when the meetings are held on a regular basis and Team Leaders and People Manager fulfil their responsibilities from a performance, health and safety perspective.

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee

- **Limited or No Assurance Opinions**
- **Follow-ups**

Summary of Work Completed – Follow-ups

Follow up reviews are undertaken where a previous audit has returned a 'limited Assurance' or 'No Assurance'. This is to provide assurance to the Audit and Governance Committee that areas of weakness have been addressed. Follow up reviews will only focus on the areas of weakness identified in the original review and are usually undertaken 6 months after the original review to allow time for recommendations to be implemented.

Combined Follow Up

This audit follows up on recommendations made in the below four audits:

- Lone Working
- Supplier Financial Resilience
- Information Governance GDPR
- Performance Management

Thirteen recommendations were made in the original four audits. The table below highlights progress made against each of the recommendations.

	Complete	In Progress	Not Started	**Total**
Priority 1	-	-	1	**1**
Priority 2	-	7	4	**11**
Priority 3	-	1	-	**1**
Total	**-**	**8**	**5**	**13**

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee

- **Limited or No Assurance Opinions**
- **Follow-ups**

Summary of Work Completed – Follow-ups

Lone Working (Reported to Audit Committee June 2019 & October 2019)

The law requires employers to carefully consider and address health and safety risks for employees working alone. Limited assurance was awarded due to weaknesses identified in lone working practices at South Somerset District Council. These included risk assessments being overdue for review, an outdated Lone Working Policy and a lack of lone work training provision for officers.

None of the five recommendations have yet been fully implemented although action has been taken to move them along. Revised dates for completion are end of March 2021.

Detailed explanation against the recommendations can be viewed below in **Appendix C**.

Supplier Financial Resilience (Reported to Audit Committee January 2019 & January 2020)

Monitoring and managing the suppliers used by the Council is important to ensure that there is cover or options available to manage any supplier resilience issues. As part of these the Councils Business Continuity Plans need to include managing supplier failures. This Audit was followed up in 2019-20 where 1 recommendation remained outstanding from the original audit. This outstanding recommendation is still in progress and is being actioned a part of a bigger piece of work on business recovery and business continuity plans.

Details on the recommendation can be found in **Appendix C** below.

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee

- **Limited or No Assurance Opinions**
- **Follow-ups**

Summary of Work Completed – Follow-ups

Information Governance GDPR (Reported to Audit Committee June 2020)

Data Protection Act 2018 incorporating GDPR came into effect on 25th May 2018 replacing the Data Protection Act 1998 and represents the latest generation of legislation covering both enhanced rights for individuals and the extended compliance requirements of organisations who handle, store and process data. The Information Governance review was finalised shortly before Covid-19 and as a result the lead officer responsible for undertaking the recommendations was redeployed which has delayed their implementation.

Details on the recommendation can be found in **Appendix C** below

Performance Management (Reported to Audit Committee June 2020)

Performance Management is an important tool for monitoring the overall performance of the Council and the various services provided. It provides Managers and Members with an overview of performance and helps to identify areas of concern. While monitoring is being undertaken it was identified that these targets were not focused on service improvements and that specific service targets were not being monitored within the Corporate performance monitoring framework. There was also no quality control process to ensure the data being provided was an accurate reflection of the Councils performance. The Information Governance review was finalised shortly before Covid-19 and as a result the lead officer responsible for undertaking the recommendations was redeployed which has delayed their implementation.

Details on the recommendation can be found in **Appendix C** below

Internal Audit Plan Progress 2020-21

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2020/21 (as of 6 October 2020) were as follows:

Performance Target	Target Year End	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion In progress Yet to complete	>90%	30% 11% 59%*
Quality of Audit Work Customer Satisfaction Questionnaire	>95%	100%
Outcomes from Audit Work Value to the Organisation *(client view of whether our audit work met or exceeded expectations, in terms of value to their area)*	>95%	100%

*Additional work/reviews have been picked up in quarter 1 & 2 and therefore some reviews will need to be deferred

We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time. Due to Covid-19 the plan priority areas will be agreed on a quarter by quarter basis.

Approved Changes to the Plan

The audit plan for 2020/21 is detailed in **Appendix B.** Despite the impact of Covid-19 and some additional work being added to the plan, we have not yet removed any items from 2020-21 plan. For this reason, the plan will remain flexible targeting short term priorities as agreed with SLT on a quarter by quarter basis. This is to ensure the plan reflects the changing risks and service pressures and remains relevant to South Somerset District Council. The following changes have been made to the 2020/21 Audit Plan since the last report:

Amendments to the plan:

- Civica Digital Systems Review has been combined with the Transformation Close down audit. This review is looking at the Civica systems as well has other elements of transformation as part of the lessons learned piece of work as the programme starts to come to a close. This work is currently in progress.

To manage continuity of work we have adapted the quarters when audits are undertaken which has resulted in some audits being brought forward and others being pushed back.

Deferred work pushed back to later in 2020-21:

- Procurement was pushed back to quarter 4. This was due to the change of roles for the Procurement specialist to become the new Lead Specialist People and change. This has meant that he does not have the capacity to support this review and it has been delayed until quarter 4 to allow his replacement to be appointed and in post.
- Income Generation Service Improvements has been pushed back to quarter 3. This is due to the lead officer having to focus on Covid-19 recovery and therefore was unavailable to support this work until quarter 3.
- S106 & CIL has been pushed back to quarter 4 as the lead specialist for planning had left and time was needed to recruit his replacement.

Assurance Definitions

No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Non-Opinion/Advisory	In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Fraud, Corruption and Governance	Boden Mill & Chard Regeneration Scheme Accounts Review	Q1	Final	Advisory	0	0	0	0	
Fraud, Corruption and Governance	**New:** Growth Deal Capital Expenditure Certification	Q1	Final	Advisory	0	0	0	0	
Fraud, Corruption and Governance	Yeovil Cemetery & Crematorium Annual Accounts Controls Assurance	Q1	Final	Advisory	0	0	0	0	
Covid-19 Support	**New:** Covid-19 Support/Advice	Q1	Final	Advisory	0	0	0	0	Help with performance monitoring dashboard and remote decision-making advice.
Governance Fraud & Corruption	Project Governance - Regeneration Projects	Q1	Final	Limited	5	0	3	2	
Follow Up	Combined Follow up	Q1	Final	Advisory	0	0	0	0	
Covid-19 Support	**NEW:** Grant Funding Schemes Assurance for Local Authorities (Risk Assessment)	Q1	Final	Advisory	0	0	0	0	
Governance Fraud & Corruption	**NEW:** Health & Wellbeing	Q2	Final	Reasonable	2	0	0	2	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
IN PROGRESS									
Operational	Homelessness	Q2	Review						
Transformation	Transformation close down	Q2	In Progress						
ICT	Cyber Security Framework Review	Q3	In Progress						
NOT STARTED									
Governance Fraud & Corruption	Income Generation Service Improvements	Q3	Not Started						Deferred from quarter 2
ICT	Digital Strategy & Transformation	Q3	Not Started						Deferred from quarter 2
ICT	ICT Governance and Risk Scope Review	Q3	Not Started						
Key Control	Council Tax & NNDR	Q3	Not Started						
Key Control	Creditors	Q3	Not Started						
Key Control	Housing Benefits	Q3	Not Started						
Key Control	Budget Planning and Monitoring	Q3	Not Started						

Summary of Work Plan — Appendix B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Governance Fraud & Corruption	Commercial Investments	Q3	Not Started						
Governance Fraud & Corruption	Procurement – Leisure Contract	Q4	Not Started						Deferred from quarter 2
Operational	S106 & CIL	Q4	Not Started						Deferred from quarter 1
Governance Fraud & Corruption	Yeovil Innovation Centre (YIC) Phase 2	Q4	Not Started						
Governance Fraud & Corruption	Risk Management	Q4	Not Started						
Governance Fraud & Corruption	Ethical Governance	Q4	Not Started						
Governance Fraud & Corruption	Somerset Districts Cooperation/collaboration FOLGIS	Q4	Not Started						
Governance Fraud & Corruption	Climate Change	Q4	Not Started						
Follow Up	Information Governance GDPR Follow Up	Q4	Not Started						
Deferred or Removed									
Transformation	Civica Digital Systems Review	Q2	Not Started						Combined with Transformation Close down

The following recommendations and agreed action are from the Project Governance Regeneration review undertaken in June/July 2020.

P1 or P2	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Project Governance Regeneration					
P2	Inconsistent practices are in place to manage and control the regeneration programmes.	Inconsistent practices resulting in potential overspend, risks not being mitigated and not meeting the required timescales.	We recommend that the People, Performance and Change Lead draws up a Corporate Project Management Framework. This should be then be used for all projects going forward. Where projects are already in progress, it is not expected that all the documentation should be redone but that any documentation used for monitoring should be produced such as issue logs and change management.	Agreed. This is will be undertaken by the People, Performance and Change Lead who is currently being recruited.	30 July 2021
P2	The roles and responsibilities of the Strategic Development Board are unclear in relation to the regeneration programme.	Lack of clarity could cause confusion resulting in ineffective decision making and project objectives not being met.	We recommend that the Regeneration Programme Manager reviews the Terms of Reference and ensures that the roles, responsibilities, and decisions made on the regeneration programmes are clarified. It also should be made clear which reports should be presented to the Board.	Agreed. The revised Terms of Reference will go to the next meeting of each Board.	31 October 2020

P1 or P2	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
P2	There is an inconsistent approach to governance at the Regeneration Programme Boards.	Members of the Boards are not provided with the necessary information to make informed decisions resulting in project objectives not being met.	We recommend that the Regeneration Programme Manager produces a Standing Agenda for the Regeneration Boards and this should include a Declaration of Interests item and the presentation of a progress report, risk register, budget monitoring report and issues log.	Agreed. The revised agenda will go to the next meeting of each Board.	31 October 2020

Combined Follow Up Review

The following table provides an update on the Priority 1 (P1) and Priority 2 (P2) recommendations previously raised in 'Limited Assurance' audits.

Weaknesses Found	Recommendation	Target Date for Completion	Manager's Update – October 2019	Manager's Update – August 2020
LONE WORKING (Reported to Audit Committee June 2019 & October 2019)				
Risk assessments are not reviewed annually. (P2)	We recommend that the Leadership and Management Team ensures risk assessments are updated and reviewed annually. An annual check should be carried out to ensure all have been reviewed and updated to show the date of review.	Original Target Date: 31 March 2019 Revised Implementation Date: 31 March 2021	The creation of the 3 new generic risk assessments to replace / decommissioned the existing risk assessments within the TEN management system has been delayed and did not met the target date. However, risk assessments have been reviewed by people managers and controls are in place for the higher risk lone working situations. For example, customer focussed officers working alone at satellite offices, locality officers visiting homes etc.	The very long list of H&S risks was reviewed some time ago and strategic risks were pulled out of here and form part of a new approach to risk management. Strategic risks are now reviewed quarterly and reported to SLT. Operational risks remain the responsibility of managers in those specific areas but are co-ordinated by the H&S working group. Unfortunately, the work plan for the H&S group was interrupted by Covid-19 and also by long-term sickness. This has not been fully implemented at an operational level. A new officer has been appointed who will be responsible for picking this action up.

Weaknesses Found	Recommendation	Target Date for Completion	Manager's Update – October 2019	Manager's Update – August 2020
Training is not provided to all Lone workers. (P2)	We recommend that the People Managers Forum ensures that the lone working training programme is reviewed and updated, and that all lone workers are complete this regardless of length of service. Annual refreshers should be carried out to update on any changes in protocols that have occurred and ensure the correct processes are being followed.	Original Target Date: 30 April 2019 Revised Implementation Date: 31 March 2021	All identified lone workers, issued with a Skyguard device, have undertaken appropriate training for use of the device and procedures to follow in the event of an incident. The new Learning Management System goes live in October and this will be the main vehicle to deliver rules / information based training for all employees, instructions will be given to complete the 2 lone worker modules together with a refresh of the Skyguard training where appropriate. We will expect all relevant employees to have completed this by the end of November. We will be able to report on that. In addition, employees who meet with and help vulnerable customers have received additional training when working in a potentially riskier situation. The L&D Specialist is also developing more opportunities for training and learning for dealing with abusive or challenging customers.	This is still outstanding. The lead officer who was working on it has been long term sick leave and has now left. A replacement has been appointed who will be responsible for progressing this action.

Weaknesses Found	Recommendation	Target Date for Completion	Manager's Update – October 2019	Manager's Update – August 2020
There is no consistency in lone working systems used across teams. (P2)	We recommend that the Lead Specialist Strategic Planning ensures that: • the need to use Skyguard is clearly communicated to all lone workers and their Managers; • training is provided on its use to all lone workers; • the method of raising the alarm is considered and communicated to all lone workers and their Managers.	Original Target Date: 30 April 2019 Revised Implementation Date: 31 March 2021	Verbal update to be provide during Audit Committee.	This was placed on the work plan for H&S in 2019; however, the work plan was not activated fully before being interrupted by long term sick. This will be picked up by the newly appointed officer.
Not all officers have access to a register of dangerous persons or properties list. (P2)	We recommend that the Lead Specialist Environmental Health and the Specialist Service Manager ensures that a register of dangerous persons is produced and made available to all officers who may have to deal with customers on their own.	Original Target Date: 30 April 2019 Revised Implementation Date: 31st March 2021	The format and principles for operating a register which both supports employees to be safe and protect the privacy of individuals has been produced and held in a shared drive open to all employees. Names will be added following assessment by a small officer group.	The internal 'lists' already in place have been updated. The lead in this area was developing a protocol for a new corporate system, although this has not been completed and delayed due to long term sick leave. This will be picked up through the H&S working group.

Weaknesses Found	Recommendation	Target Date for Completion	Manager's Update – October 2019	Manager's Update – August 2020
SUPPLIER FINANCIAL RESILIENCE (Reported to Audit Committee January 2019 & January 2020)				
Business Continuity Plans do not include provisions on dealing with suppliers who have gone into administration and can no longer deliver their contracted goods or services. (P2)	We recommend that the Lead Specialist – Strategic Planning ensures that supplier failure plans are developed for critical suppliers and the Business Continuity Plans are updated to include reference these.	Original Target Date: 31 March 2019 Revised Implementation Date: 31 March 2021	The Commodity and Supplier Risk Model identifies if the council has seen the supplier's business continuity plans so they know how they will manage to meet the contract should anything occur. It also identified how easy it would be to replace the supplier and the level or reliance the Council have on any one supplier for a certain commodity or service area. They do not yet have sight of all the required BCP's and these are being requested as part of the retendering process for the key critical suppliers. They will also be working on supplier failure plans alongside this process as the BCP will help identify what the Council may need to do should they fail.	As a response to COVID and its impacts on the community and authority itself, there is an intention to review current service arrangements to ensure they are fit for purpose going forward. This will be aligned to the current SSDC Covid-19 Recovery Planning activity. It is SSDC's intention when the business service review is completed to update the commodity risk register on the basis of this broader review to ensure alignment. This will (re) confirm the high-risk contracts and suppliers and allow us to target the key external procured relationships and ensure they are embedded in our contract management model. This in turn will then inform where SSDC supplier failure plans need to be developed by the relevant service areas and which SSDC Business Continuity Plans need updating.

Page 59

Weaknesses Found	Recommendation	Target Date for Completion	Manager's Update – October 2019	Manager's Update – August 2020
INFORMATION GOVERNANCE (Reported to Audit Committee June 2020)				
The Information Asset register has not been fully completed for all service areas. (P1)	We recommend that the DPO ensures the Information Asset Register is fully updated and a review process is introduced to ensure it stays up to date an accurate.	Original Target Date: 31 May 2020 Revised Implementation Date: 30 September 2020	DPO to review (with Case Officer support) the register and put review process in place	This has not been completed. From Monday (13/07/2020) there is a new case officer starting which will be focused on this and getting the register up to date. Management Update October 2020: Management confirmed this was completed by 30.9.20
Privacy notices are not in place for all services including planning and where they are, don't clearly detail the legal basis for processing data or the specified purpose. (P2)	We recommend that the DPO ensures that each service area has a privacy policy introduced and that the privacy notices are updated to clearly state the legal basis for processing data and the specified purpose of processing.	Original Target Date: 30 June 2020 Revised Implementation Date: 31 August 2020	All service areas to have a privacy policy in place.	This has not been completed. Again, they have not been able to go to the services during Covid-19 to get this completed. This is going to be done in conjuncture with the recommendation below to save time to the services.
Process for identifying and removing data once the retention period has expired is not in place. (P2)	We recommend that the DPO ensures a retention policy is drafted and processes are put in place for all services and ensures data is only retained during the retention period. Data held outside of the retention period should be identified and appropriate action taken. This data should be recorded within the corporate retention	Original Target Date: 30 September 2020	Retention schedule to be reviewed in conjunction with Legal, communicated to all areas and placed on portal.	This has not been completed. As stated above these two recommendations are going to be completed at the same time to minimise the time for each service. This had a longer timescale to be completed - by the end of September. This is expected to be completed by then.

Page 60

Weaknesses Found	Recommendation	Target Date for Completion	Manager's Update – October 2019	Manager's Update – August 2020
	schedule which should be available to staff as required.			
Training Courses are not being completed by all officers and members. (P2)	We recommend that the DPO ensures that following reminders being sent that any outstanding training is reported to SLT if not completed within three months of the initial reminder.	Original Target Date: 30 June 2020 Revised Implementation Date: 30 September 2020	In addition to the existing process of DPO sending reminders, Managers/Team Leaders will be able to see which members of their teams have completed (or not) their training via the Learning Management System. We agree to update SLT where training is not being completed following reminders.	This training has taken place and a report was run at the end of June. The report showed that currently only 63% of staff have completed the training. Some of these are due to staff they know will not have been able to complete it due to being on furlough and staff at Lufton who due to the current situation have not had the time to complete this. The training is now on the new LMS system which means that all managers are able to see who has completed the training and who hasn't. Therefore, it is now the responsibility of the managers to ensure their team has completed all their training. Report to SLT has not yet been sent and therefore this is still in progress to complete the recommendation.
Data protection policy is not easily available to staff or the public. (P2)	We recommend that the Specialist performance ensures that the Data Protection Policy is published on the website and portal.	Original Target Date: 31 May 2020 Revised Implementation Date: 31 August 2020	Data Protection Policy to be published on portal and SSDC website.	The Data Protection Policy has been posted onto the staff portal. It is therefore now available to all staff. Management Update October 2020: Management have confirmed it has been published on the website and portal.

Weaknesses Found	Recommendation	Target Date for Completion	Manager's Update – October 2019	Manager's Update – August 2020
PERFORMANCE MANGEMENT (Reported to Audit Committee June 2020)				
Three performance indicators out of ten could not be verified to source data. There is no quality assurance process in place to mitigate against in accurate KPIs being submitted. (P2)	We recommend that the Specialist Performance introduces a quality control process into the quarterly reporting process. This should include: • Requesting that Officers submitting figures supply the reports to enable the performance team to confirm they match the email • Periodic reviews of the run process for producing the measures to confirm appropriate	Original Target Date: 31 July 2020 Revised Implementation Date: 31 August 2020	Quality control process to be put in place for each reporting area and spot checks to be made during the quarterly report collation.	The quarterly quality control process has not been put in to place yet. The Performance Officers is involved with both the DOP and performance. In the current situation there has been no time to work on the performance as her DOP responsibilities have taken priority. Along with this there is no case officer to work on this as well. This does mean that the deadline will be missed. Management Update October 2020: Work has been undertaken on where data sources come from and are putting in data quality assurance for Q3.
No targets are being set or actions agreed to address underperforming measures. (P2)	We recommend that the Specialist-Performance ensures that there are targets set for underperforming measures in the report and that actions are agreed on how performance will be improved.	Original Target Date: 31 July 2020 Revised Implementation Date: 31 August 2020	Targets and actions to be put in place from Q1 2020/21 for all areas.	This is the same as 1.1 - it has slipped down the priority as other issues have come up with Covid-19 and other council responsibilities. So, the deadline will be missed. Management Update October 2020: Areas to focus on for improvement have been identified and are awaiting approval before being move forward.

Agenda Item 9

Treasury Management Practices

Director: *Nicola Hix, Support Services*
S151 Officer: *Jo Nacey*
Lead Officer: *Paul Matravers, Specialist - Finance*
Contact Details: *paul.matravers@southsomerset.gov.uk or 01935 462275*

Purpose of the Report

1. To request members of the Audit Committee approve the attached Treasury Management Practices (TMPs).

Recommendation

2. Audit Committee is recommended to approve the Treasury Management Practices included in this report.

Background

3. The CIPFA Treasury Management in the Public Services Code of Practice (the Code) requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management.

4. As in previous versions, the Code recommends the creation and maintenance of suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

5. The recommended Treasury Management Practices for South Somerset District Council comprise:

   TMP 1: Risk management
   TMP 2: Performance measurement
   TMP 3: Decision-making and analysis
   TMP 4: Approved instruments, methods and techniques
   TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements
   TMP 6: Reporting requirements and management information arrangements
   TMP 7: Budgeting, accounting and audit arrangements
   TMP 8: Cash and cash flow management
   TMP 9: Money laundering
   TMP 10: Training and qualifications
   TMP 11: Use of external service providers
   TMP 12: Corporate governance
   TMP 13: Management Practices for Non-Treasury Investments

6. The Treasury Management Practices principles and schedules document follows the same format as previous years in that the schedules supporting these practices are at a higher level giving an overview of the processes to be followed. The detail specifying the systems and routines to be employed, the records to be maintained in fulfilling the Council’s treasury functions and any other documents supporting the processes are held at an operational level within an operations manual.

Amendments to Treasury Management Practices

7. There are a number of changes to the 2020 TMP's. However, it should be noted that none of the changes are as a result of changes in legislation. The amendments to the TMP's are highlighted in the document.

8. A significant section that has been amended is in respect of the key principles and the clauses to be adopted. The 2020 schedules have included the detail in this area whereas previously it referred to the key principles. Details of the amendments to the specific TMP's are summarised below.

<u>TMP1 – Risk Management</u>

<u>Section 2</u> (Liquidity & Risk Management) – **(d)** Borrowing in advance of need

Change – additional wording explaining the concept and the associated risk

<u>Section 3</u> (Interest Rate Risk Management) – **(a)** Minimum/maximum portions of fixes/variable rate debt/interest

Change – detail included on the determination of the fixed and variable rate debt and the ongoing monitoring of this.

<u>Section 3</u> (Interest Rate Risk Management) – **(b)** Managing changes to interest rate levels

Change – narrative in respect of negative interest rates and the impact on investments

<u>Section 5</u> (Inflation Rate Risk Management) – **(a)** Inflation risk management

Change – detail included on how the risk is managed including the monitoring of the financial impact of inflation rate changes.

<u>Section 6</u> (Refinancing Rate Risk Management) – **(b)** Debt profiling, policies and practices

Change – additional information on identifying the long term borrowing need and how the Council's treasury advisors assist in identifying the need.

<u>Section 9</u> (Price Risk Management) – **(a)** Details of approved procedures

Change – clarification on pooled fund investments and further details on valuation changes of such investments.

<u>TMP2 – Performance management</u>

<u>Schedule</u> – **(c)** Evaluating the impact of treasury management decisions

Change – Inclusion of how advisors input into the treasury management decision making processes.

<u>TMP3 – Decision Making and Analysis</u>

<u>Schedule</u> – **(a)** Capital expenditure and investment plans

Change – new schedule providing detailed information on how capital expenditure fits with the organisations strategy and the governance and appraisal processes.

<u>TMP 4 - Approved Instruments, Methods and Techniques</u>

<u>Schedule</u> – **(d)** Investments that are not part of treasury management activity

Change – new schedule providing detailed information non treasury investments and summary narrative on the management of risks.

<u>TMP 6 – Reporting requirements and management information arrangements</u>

<u>Schedule</u> – **(a)** Capital strategy

Change – schedule providing information on the capital strategy including aims of the strategy and the content.

<u>TMP 7 – Budgeting, accounting and audit arrangements</u>

<u>Schedule</u> – **(d)** Treasury-related information requirements of external auditors

Change – requirements of external auditors in respect of external borrowing.

9. Other changes to the TMP's are amendments intended to improve the readability of the document.

Financial Implications

10. There are no financial implications in accepting this report and the associated recommendations.

Background Papers:

Treasury Management Strategy Statement 2020-21

South Somerset District Council

Treasury Management Practices

Principles and Schedules

September 2020

Introduction

The CIPFA Treasury Management in the Public Services Code of Practice (the Code) was revised in December 2017. The Code requires for the setting out of the responsibilities and duties of Members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. There is no longer a requirement to formally adopt the Treasury Management Code, but instead the Council is now required by law to have regard to the Code.

Treasury Management is defined by CIPFA as:

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

'Investments' in the definition above covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial returns, including but not limited to investment property portfolios. Such non-financial assets are not managed as part of the Council's normal treasury management or under treasury management delegations, but they nonetheless require appropriate investment and risk management under the Code; a separate Treasury Management Practice (TMP 13) in this document is therefore included, specific to these investments.

The Code identifies three key principles

(1) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities

(2) Their policies and practices should make clear that the effective management and control of risk and prime objectives of their treasury management activities and that responsibility for these lies clearly within these organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds

(3) They should acknowledge that the pursuit for value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

(1) The Council will create and maintain, as the cornerstones for effective treasury management:

(a) A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

(b) Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

The content of the policy statement and TMPs will follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

(2) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs
(3) The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Audit Committee, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management
(4) Should the treasury management strategy and policies require scrutinising, the Council nominates Scrutiny Committee to perform this function.

Where a Capital Strategy is produced and approved by Full Council, then the District Executive may also set the detailed treasury management policies, whilst being clear that overall responsibility remains with Full Council.

This includes recommendations for the authority to create and maintain:

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities;
- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices (TMPs) comprise:

TMP 1:	Risk management
TMP 2:	Performance management
TMP 3:	Decision-making and analysis
TMP 4:	Approved instruments, methods and techniques
TMP 5:	Organisation, clarity and segregation of responsibilities and dealing arrangements
TMP 6:	Reporting requirements and management information arrangements
TMP 7:	Budgeting, accounting and audit arrangements
TMP 8:	Cash and cash flow management
TMP 9:	Money laundering
TMP 10:	Training and qualifications
TMP 11:	Use of external service providers
TMP 12:	Corporate governance
TMP 13:	Management Practices for non-treasury investments (Investments that are not part of Treasury Management Activity)

TMP 1: Risk management

All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The Council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The responsible officer will design, implement and monitor all arrangement for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP 6: Reporting requirements and management information arrangements.

1. **Credit and counterparty risk management:**

Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

Principle: The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment. It will also ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4: Approved instruments, methods and techniques. The Council also recognises the need to maintain a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Schedules:

A. Criteria to be used for creating/managing approved counterparty lists/limits

- The S151 Officer is responsible for setting prudent criteria, taking appropriate advice, guidance and assistance from the Council's treasury advisors.
- The criteria will be agreed by Audit Committee and Full Council.
- The current criteria is contained within the operations manual.
- The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its credit criteria (determined at least annually) and will monitor and update the credit standing of the institutions on a regular basis.
- The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from the main ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support which now includes resolution mechanisms for failing financial institutions, Credit Default Swap information, the composition of an institution's balance sheet liabilities). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.
- The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.

- Higher time and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress).
- Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.

B. Approved methodology for changing limits and adding/removing counterparties

- The S151 Officer has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above
- Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria then:
    - No new investments will be made
    - Any existing investments that can be recalled or sold at no cost will be
    - Full consideration will be given to the recall or sale of other existing investments with the affected counterparty.

Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative' or 'credit watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known.

C. Counterparty list and limits

- A full individual listing of banking counterparties based on the criteria will be maintained. As credit ratings etc. are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis within the operations manual.

D. Country, sector and group listings of counterparties and overall limits applied to each where appropriate

- Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits have been set for the above in terms of monetary value/percentage of overall portfolio, where appropriate. Group limits for organisation under the same ownership will be set at the same level as the lead institution in that group.

E. Details of credit rating agencies' services and their application

- The Council considers the ratings of the main ratings agencies when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.
- No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the minimum credit rating criteria.

F. Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment

- The Council's Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information of share price. The Council's Treasury Advisor also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank's unsecured liabilities should this be required by the regulatory authorities. In addition, the S151 Officer reads quality financial press for information on counterparties

2. Liquidity Risk Management:

Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objective will be thereby compromised.

Principle: The S151 Officer will ensure the Council has adequate (though not excessive) cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the approved capital programme or to fund future debt maturities.

Schedules:

A. Cash flow and cash balances

- The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling minimum 6-month cash flow forecast.
- The treasury team will seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.
- In order to achieve the maximum return from investments, a daily cash balance of +/- £100,000 is the objective for the Council's current account

B. Short term investments

- The Council uses various Reserve Accounts and Money Market Funds to manage its liquidity requirements. These accounts/funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.

C. Temporary Borrowing

- Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any point during the year.
- At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Council-approved Prudential Indicator for the Authorised Borrowing Limit.

D. Borrowing in advance of need

- The Council may decide to borrow in advance of need where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent.
- The Council may be exposed to the risk of both the loss of the borrowed sums, and also that investment and borrowing rates may change during the intervening period. These risks will be managed as part of the Council's overall treasury risk management.
- The total amount borrowed will not exceed the approved authorised borrowing limit.

3. Interest Rate Risk Management:

Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

Principle: The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

Schedules:

A. Minimum/maximum proportions of fixed/variable rate debt/interest

- Borrowing/investments may be at a fixed or variable rate
- The proportion of fixed and variable rate debt will be determined as part of the annual borrowing strategy to address the issues of affordability but without compromising the longer-term stability of the debt portfolio. The proportion will be kept under review on a regular basis.
- In setting its Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effect of potentially disadvantageous changes.

B. Managing changes to interest rate levels

- The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.
- The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.
- The Council may determine it is more cost effective in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing or refinancing in future years when interest rates are expected to be higher.
- Alternatively, the Council may consider forward starting loans 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.
- Interest rate forecasts are provided by the Council's advisors and are closely monitored by the treasury team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Audit Committee as necessary.
- For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.
- Negative interest rates, should economic conditions be such that the Bank of England sets Bank Rate at or below zero, this is likely to feed through into negative rates on short term, low risk investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even if it is below the amount originally invested.

C. Details of approved interest rate exposure limits

- The upper limits on one-year revenue impact of a 1% rise or fall in interest rates are determined each year as part of the Treasury Management indicators included in the Treasury Management Strategy

D. Details of hedging tools used to manage risk

- The Council's legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Council does not intend to use derivatives to manage interest rate risk.
- Should this position change, the Council will develop a detailed risk management framework governing the use of derivatives, which will require full Council approval.

4. Exchange Rate Risk Management:

The risk that the fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

Principle: The Council will ensure that it protects itself adequately against the risk of fluctuations in exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuation in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Schedule:

A. Exchange rate risk management

- This Council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity.
- If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.
- At the present time statute prevents the Council borrowing in currencies other than Sterling. The Council has determined that all its investments will be in sterling.

5. Inflation risk Management:

Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

Principle: The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

Schedule:

A. Inflation rate risk management

- Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

- The Council will identify all contractual obligations which are linked to inflation, whether receipts or payments, in relation to its treasury assets and liabilities and regularly review the financial impact of a <+/- 1%> increase/decrease in inflation from existing levels.

6. **Refinancing Risk Management:**

The risk that maturing borrowing, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for such refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Principle: The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

Schedules:

A. Projected capital investment requirements

- 3 to 5 year projections are maintained for capital expenditure and financing. Financing will be from capital receipts, reserves, revenue contributions, grants or contributions received, internal or external borrowing.
- As required by the Prudential Code, the Council will undertake options appraisal to evaluate the best capital expenditure financing route.
- The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement and liability benchmark.

B. Debt profiling, policies and practices

- To assist with long-term borrowing decision making, the Council creates, with advice and assistance from its treasury advisor, a 'Liability Benchmark' which forecasts the need to borrow over the medium to longer-term, taking into account usable reserves and working capital projections.
- Based on the output of the Liability Benchmark and the Council's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.
- The Council will maintain through its treasury and capital systems reliable records of the terms and maturities of its borrowing, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancing.
- Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.

C. Policy concerning limits on revenue consequences of capital financing

- The revenue consequences of financing the capital programme are included in cash flow models, annual revenue budget estimates and medium term forecasts.

7. <u>Legal and Regulatory Risk Management:</u>

The risk that the Council, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

Principle: The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 (A) Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers. Authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Schedules:

A. References to relevant statutes and regulations

- The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:

    - CIPFA's Treasury Management Code of Practice 2017~~,~~ accompanying Guidance Notes and subsequent amendments
    - CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
    - CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments
    - CIPFA Standard of Professional Practice on Treasury Management
    - The Local Government Act 2003
    - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments
    - The MHCLG's statutory Guidance on Minimum Revenue Provision (MRP)
    - The MHCLG Statutory Guidance on Local Government Investments in England
    - The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
    - LAAP Bulletins
    - Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2010/11 onwards)
    - Accounts and Audit Regulations 2003, as amended together with MHCLG's Guidance
    - The Localism Act 2011
    - The Bank of England's 2017 Money Markets Code (which replaces the former Non-Investment Products Code)
    - Council's Constitution including:-
        - Standing Order relating to Contracts
        - Financial Regulations
        - Scheme of Delegation

B. Procedures for evidencing the organisation's powers/authorities to counterparties

- The Council's Financial Procedure Rules contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Audit Committee.
- The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.

- Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.

C. Required information from counterparties concerning their powers/ authorities

- Investments shall only be made in institutions on the Council's authorised lending list or in securities which meet the Council's approved credit criteria.
- The Council will only undertake borrowing from approved sources listed in TMP4 Approved instruments, methods and techniques.

D. Statement on political risks and management of the same

- Political risk is managed by:
  - adoption of the CIPFA Treasury Management Code of Practice
  - adherence to Corporate Governance (TMP 12 – Corporate Governance)
  - adherence to the Statement of Professional Practice by the S151 Officer
  - the roles of the Audit Committee

8. Fraud, Error and Corruption, and Contingency Management:

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.

Principle: The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Schedule:

A. Details of systems and procedures to be followed, including Internet services

- Segregation of duties minimises the possibility of fraud and loss due to error and is detailed in TMP 5 Organisation, Clarity and segregation of responsibilities and, dealing arrangements.

  1. Electronic Banking and Dealing
     a) The Council's online banking service provided by Natwest is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the systems also holds historic data.
     b) Access to the Council's Treasury management drive is limited to those roles listed below, each having a separate log-on and password.
        S151 Officer
        Lead Specialist - Finance
        Finance Specialists x 4
        Support Services Case Services Officers x 4
     c) Full procedure notes covering the day to day operation of the on-line banking system, dealing platforms and the treasury management systems are documented and included within the operations manual.

  2. Standard Settlement Instructions
     a) A list is maintained of named officers who have the authority to transact loans and investments.

b) Brokers and counterparties with whom the Council deals direct are provided a copy of the Standard Settlement Instructions list.

3. Payment authorisation
   a) Payments can only be approved by authorised signatories of the Council, the list of signatories having previously been agreed with the Council's bank.
   b) Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts.
   c) Separate officers will carry out (a) dealing and (b) authorisation of deals

-

B. Verification

- Loans and investments will be maintained in registers which will include fees and brokerage paid.
- Transactions will be cross checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.
- When receiving requests for change of payment details. Due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before amending payment details.

C. Substantiation

- The Treasury Management spreadsheets are reconciled with financial ledger codes at the end of each month and at the financial year end.
- Working papers are retained for audit inspection.
- The bank reconciliation is carried out monthly from the bank statement to the financial system.

D. Internal Audit

- Internal Audit carry out regular reviews of the treasury management function including probity testing. See TMP7 Budgeting, accounting and audit arrangements.

E. Contingency Management

- All treasury spreadsheets are retained on the Council's network. Daily back-ups are taken and maintained and network back-ups can be used by the IT department to restore files, if necessary.
- If the electronic banking system fails, the Council have to contact the bank via telephone who will provide balances for the day. If any CHAPS payments are to be made manual forms are completed and faxed/taken to the bank before 12 noon so they can be processed on the Council's behalf.

F. Insurance Cover details

- The Council has Fidelity guarantee insurance cover. Details of the provider and cover are held by the Support Services Case Services Officer.

9. Price Risk Management:

This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Principle: This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Schedules:

A. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate

- Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks, capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.
- The Council may consider an investment in Pooled Funds with a Variable Net Asset Value (VNAV), as appropriate, in line with its treasury strategy and on advice from its treasury advisors.
- The value of the pooled funds will change in line with market prices and, in some instances, may also have a notice period prior to redemption. Such funds will therefore be used for longer investment periods. The limits per fund/asset class will be as determined in the Council's annual investment strategy.

- Additionally, should the Council have segregated fund management arrangements, then risk control guidelines will be set for each fund management agreement to control market risk:
  (a) Maximum weighted average duration of the fund;
  (b) Maximum permitted exposure to gilts/bonds;
  (c) Maximum maturity of any instrument.

B. Accounting for unrealised gains/losses

- The method of accounting for unrealised gains or losses on the valuation of financial assets comply with the Accounting Code of Practice
- Variable Net Asset Value pooled funds will be treated as Available for Sale Assets. Segregated fund with external managers will be treated as Fair Value through Profit or Loss.

TMP 2: Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Principle: The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.

Schedules:

A. Policy concerning methods for testing value for money

- Best value reviews will include the production of plans to review the way services are provided in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness, by:

a) Challenging
b) Comparing performance
c) Consulting with other users and interested parties
d) Applying competition principles

B. Policy concerning methods for performance measurement

- Performance measurement is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability.
- Prudential Indicators are local to the Council and are not intended as a comparator between authorities.
- The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis.
- Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to:
  a) Allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and
  b) Permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.

- In drawing any conclusions, the Council will bear in mind that the characteristics of its treasury operations may differ from those of other Councils, particularly with regard to the position on risk.

C. Methodology to be applied for evaluating the impact of treasury management decisions

- Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out by the Lead Finance Specialist, with financial implications included in budget monitoring reports.
- The mid-year and year-end Treasury Performance Reports will also include performance and narrative in meeting the approved Prudential Indicators.
- The Council's Treasury Management advisers review the existing debt portfolio and all transactions that have occurred in the interim in order to ensure that best practice has been achieved.
- The Council participates in the Treasury Management Advisor's quarterly investment benchmarking as well as the Treasury Management Advisor's annual Balance Sheet and Debt benchmarking.
- The Council's Treasury Management advisors compare the performance of the Council's in-house funds against all its other clients and submits the results quarterly to the S151 Officer.

D. Benchmarks and calculation methodology with regard to risk and return

- Investment returns are compared to the 7-day LIBID benchmark. For Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.

E. Value for Money

- The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives.

- When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations and Contracts Procedure Rules

TMP 3: Decision Making and Analysis

Principle: The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

The guidance on decision making states that relevant due diligence should take place on all transactions. In respect of investment decisions, the organisation should consider the risks to capital and returns and the implications for the organisation's future plans and budgets.

The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedules:

A. Capital expenditure and investment Plans

- The 2017 Prudential Code requires the Council to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority.
- Effective financial planning, option appraisal and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.

  a) The Council has an Investment Strategy and a Capital Strategy that is prepared/reviewed alongside the Medium Term Financial Strategy, for Scrutiny and Audit Committee to review and District Executive and Council to review and approve
  b) The Council has established an Investment Assessment Group who undertake due diligence, report on performance and recommend investments to acquire, or assets to dispose of, to the Chief Executive Officer, that meet required criteria set out in the Council's Commercial Strategy. A business case is completed in each case to ensure transparency, due diligence, governance and consistency to aid achievement of the Commercial Strategy and the Corporate Plan objectives. If a unanimous recommendation to proceed is made by the IAG, the proposal will be recommended to the Chief Executive Officer for a final decision in consultation with the Council Leader. There is regular performance monitoring to demonstrate how investments are performing over time, and to enable portfolio review to take place to maximise benefit over time.
  c) The Capital Programme is reviewed annually and all capital expenditure is subject to the submission of a business case and bid request

B. Major treasury decisions

- As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either:

  a) Changes to Prudential Indicator(s) during the course of the financial year
  b) Options Appraisal to determine a funding decision
  c) Raising a new long-term loan / long-term source of finance
  d) Prematurely restructuring/redeeming an existing long-term loan(s)
  e) Investing longer-term (i.e. in excess of 1 year)
  f) Utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a corporate body)
  g) Leasing

h) Change in banking arrangements
i) Appointing/replacing a treasury advisor
j) Appointing/replacing a fund manager

C. Process

- The Council's strategy for the application of its treasury policy is set out in the Treasury Management Strategy.
- Based on the Treasury Management Strategy, the Specialist - Finance will on a monthly basis prepare 24 month rolling forecasts of the financing, borrowing and surplus cash requirements of the Council, for the purpose of:
  - applying the strategy on a day to day basis
  - monitoring the results of the strategy
  - recommending amendments to the strategy to the Audit Committee where applicable during the course of the year.

D. Delegated powers for treasury management

- The S151 Officer has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.

E. Issues to be addressed, evaluation, authorisation

- In exercising these powers, the S151 Officer and those to whom the treasury activity has been delegated will
  - Have regard to the nature and extent of any associated risks to which the Council may become exposed
  - Be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained
  - Be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail
  - Ensure that the perceived credit risk associated with the approved counterparties is judged satisfactory and is within agreed limits
  - Be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive
  - Follow best practice in implementing the treasury transaction.

- In exercising Borrowing and Funding decisions, the responsible person will:

  - Evaluate economic and market factors that may influence the manner and timing of any decision to fund
  - Consider alternative forms of funding, including use of revenue resources, leasing and private partnerships
  - Consider the use of internal resources and/or, the most appropriate periods to fund and repayment profiles to use
  - Consider ongoing revenue liabilities created
  - Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.

- The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. In exercising Investment decisions, the responsible person will:

- Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;
- Consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;
- Consider the risk associated with unsecured investments with banks and building societies
- Consider the alternative investment products and techniques available if appropriate.

F. The processes to be followed will be in keeping with TMP 4: Approved, Instruments, Methods and Techniques.

G. Evidence and records to be kept

- The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for a historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.

- Records and working papers will be securely stored and maintained in line with proper accounting practice and the Council's record management policies.

TMP 4: Approved Instruments, Methods and Techniques

Principle: The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk Management.

The Council has reviewed its classification with financial institutions under MiFID II and has set out in the schedule those organisations with which it is registered as a professional client. If not registered as a professional client the Council, by default is treated as a retail client by financial institutions.

Schedules:

A. Approved treasury management activities

- The Council is permitted to undertake the following activities
  - Managing cash flow
  - Capital financing
  - Borrowing including debt restructuring and debt repayment
  - Lending including redemption of investments
  - Banking
  - Leasing
  - Managing the underlying risk associated with the Council's capital financing and surplus funds activities.

- The above list is not definitive and the Council would, from time to time, consider new financial instruments and treasury management techniques. However, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

B. Approved capital financing methods and types/sources of funding

- On balance sheet

- Public Works Loans Board (PWLB) loans and any successor body
    - Long term money market loans including forward starting loans and LOBOs
    - Temporary money market loans (up to 364 days).
    - Bank overdraft
    - Loans from bodies such as the European Investment Bank (EIB)
    - Stock issues
    - Deferred Purchase
    - Government and EU Capital Grants
    - Lottery monies
    - Other Capital Grants and Contributions
    - Private Finance Initiative
    - Operating and finance leases
    - Hire Purchase
    - Sale and leaseback

- <u>Internal Resources</u>
    - Capital Receipts
    - Revenue Balances
    - Reserves

- <u>Approved sources of long-term and short-term borrowing include</u>
    - Public Works Loan Board (PWLB) and its successor body
    - Any institution approved for investments
    - Any other bank or building society authorised to operate in the UK
    - UK public and private sector pension funds
    - UK Municipal Bonds Agency and other special purpose vehicles created to enable local authority bond issues

- The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

C. Approved investment instruments

- The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as ‘Specified’ or ‘Non Specified’ based on the criteria set out in the MHCLG Investment Guidance 2018 (as amended).

- The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the Council’s credit criteria will also apply.

    - Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF), and UK local authorities
    - Banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit)
    - Investments in Money Market Funds, i.e. ‘AAA’ liquidity funds with a 60-day Weighted Average Maturity (WAM)
    - Treasury Bills
    - Gilts
    - Bonds issued by multilateral development banks
    - Sterling denominated bonds by non-UK sovereign governments
    - Covered bonds (i.e. those with underlying collateral)
    - Unsecured corporate bonds
    - Reverse Repurchase Agreements (‘reverse repos’)
    - Investments with Registered Providers of Social Housing (i.e. housing associations)

    - Commercial paper
    - Floating Rate Notes
    - Real estate investment trusts
- Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534 and subsequent amendments and which invest in cash instruments / bonds / equities / property – (bond, equity, property and multi asset funds will be long-dated strategic investments). The Council will ensure it maintains the skills and experience necessary to evaluate the benefits and control the risks associated with the above investment instrument.

D. Investments that are not part of treasury management activity

- These are investments whereby the Council invests in other financial assets and property primarily for financial return. Such activity includes investments in subsidiaries.
- The Council ensures that it has the same robust procedures for the consideration of risk and return and
    - Ensures that all investments, including non-treasury investments are covered in the Capital Strategy.
    - Maintains a schedule of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the corresponding risk exposure.

E. Use of Derivatives

- The Council intends to use derivative instruments for the management of risks, limited to those set out in the annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

- Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Act is not sufficiently explicit. Consequently, the Authority does not intend to use derivatives. Should this position change, the Authority may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements

Principle: The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the responsible officer in respect of treasury management are set out in the schedule below. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

Schedules:

A. Limits to responsibilities at Executive levels

Council

- Budget consideration and approval.
- Approval of amendments to the Treasury Management Strategy, the organisation's adopted clauses and treasury management policy statement
- Approval of annual report on Treasury Management

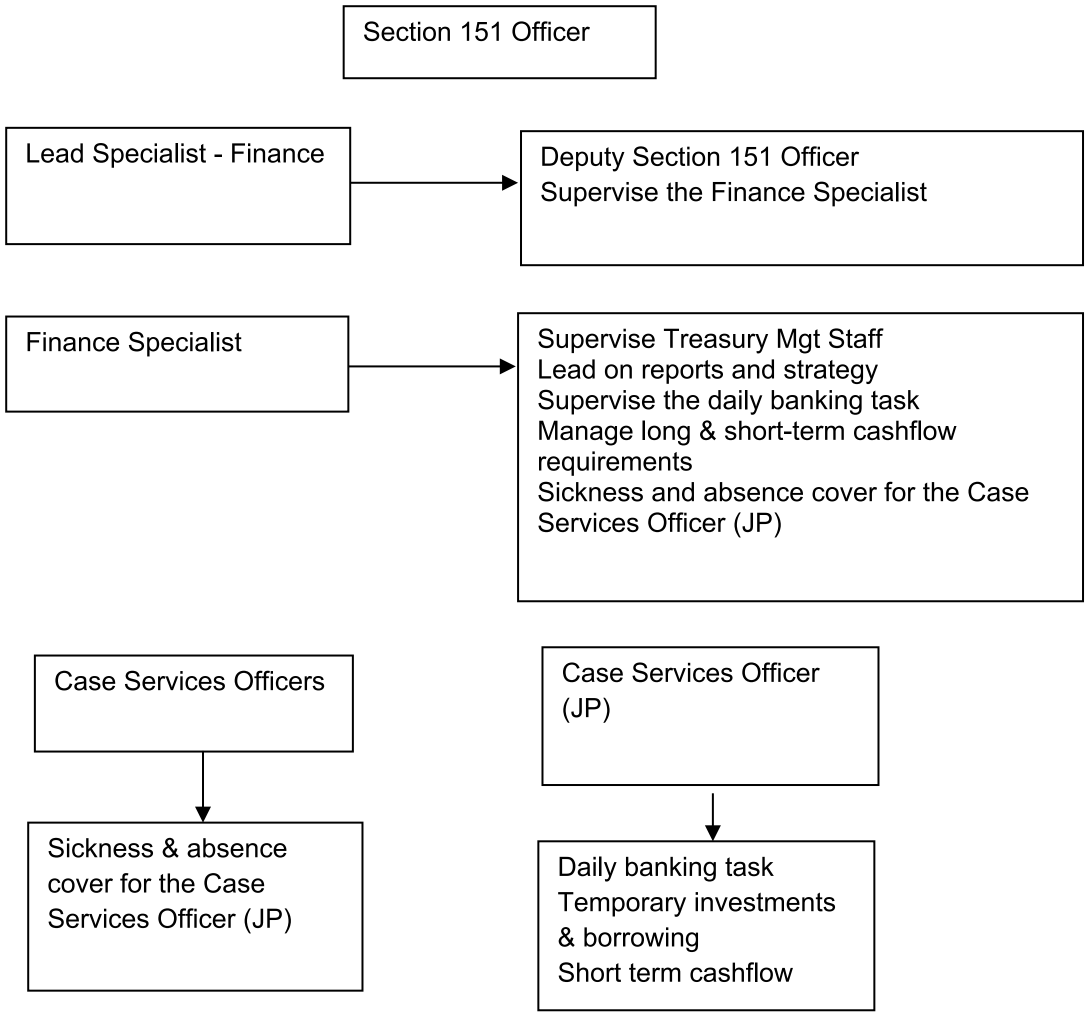
Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities
- Receiving and reviewing Prudential Indicators as part of the budget setting process
- Receiving and reviewing external audit reports and acting on recommendations
- Approving the Treasury Management Practices
- Approving the selection of external service providers and agreeing terms of appointment
- Overview of Treasury Management function

B. Principles and practices concerning segregation of duties

- Officers involved in the daily banking task are not to undertake bank reconciliation duties.
- Authorised signatories signing CHAPS forms are not to authorise that payment on the Bankline system.

C. Statement of duties/responsibilities of each treasury post



S151 Officer

- The S151 Officer will:
  a) Regularly review and recommend treasury management policy and practices for approval, and monitor compliance
  b) Determine Prudential Indicators, Treasury Management Strategy (including the Annual Investment Strategy) and Capital Strategy
  c) Submit regular treasury management policy reports
  d) Submit budgets and budget variations
  e) Receive and review management information reports
  f) Review the performance of the treasury management function and promote best value reviews
  g) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
  h) Ensure the adequacy of internal audit
  i) Liaise with external audit
  j) Recommend the appointment of external service providers.

- The S151 Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

- The S151 Officer may delegate powers to borrow and invest to specified staff members. The Lead Specialist - Finance, Finance Specialist, Case Services Officers or other staff authorised by the S151 Officer to act as temporary cover for leave/sickness, must conduct all dealing transactions. All transactions must be authorised by at least two of the named officers above.

- The S151 Officer will ensure that the Policy is adhered, and if not will bring the matter to the attention of elected members as soon as possible.

- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the S151 Officer to be satisfied, by reference to the Monitoring Officer (Lead Specialist - Legal), the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

- It is also the responsibility of the S151 Officer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

Finance Specialist

The responsibilities of this post will be:-

a) Adherence to agreed policies and practices on a day-to-day basis
b) Supervising activities of treasury management staff
c) Monitoring performance on a day-to-day basis
d) Monitoring the Treasury Management Budget
e) Managing long and short term cash flow
f) Overseeing and authorising execution of transactions
g) Submitting management information reports to the responsible officer

Chief Executive Officer

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented
b) Ensuring that the S151 Officer reports regularly to the responsible committee/the Council on treasury policy, activity and performance.

Monitoring Officer

The responsibilities of this post will be: -

a) Ensuring compliance by the S151 Officer with the treasury management policy statement and treasury management practices and that they comply with the law
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice
c) Giving advice to the S151 Officer when advice is sought.

Internal Audit (SWAP)

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and procedures
b) Reviewing division of duties and operational practice
c) Assessing value for money from treasury activities
d) Undertaking probity audit of treasury function.

D. Absence cover arrangements

- In the absence of the S151 Officer, the Lead Specialist – Finance (Deputy S151 Officer) shall take on board the responsibilities and duties of the S151 Officer.

- Under the supervision of the Specialist Finance, the general day to day activities shall be undertaken by the Case Services Officer (JP). However, this may from time to time passed to other Case Services Officers.

- In the absence of the Specialist Finance, the responsibilities and duties will be undertaken by the Lead Specialist - Finance or other Finance Specialist (or officers authorised by the S151 Officer to act as temporary cover) supported by the rest of the Treasury Management team.

E. Dealing limits

- Currently there is a £10m upper limit in the total value of out-going CHAPS transactions in any one day without reference to the National Westminster Bank plc. Transactions that exceed the £10m limit will be referred back to the Treasury team for explanation.

F. List of approved brokers

  - Martins Brokers (UK) plc, 25 Dowgate Hill, London, EC4R 2BB
  - Kings and Shaxson, Cutlers Court, 115 Houndsditch, London, EC3A 7BR
  - Tradition (UK) Ltd, Beaufort House, 15 St Botolph Street, London, EC3 7QA

G. Policy on brokers' services

- It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a register of business between them in order to avoid relying on the services of any one broker. Any changes to the list of approved brokers will not be made without prior consultation with the S151 Officer.

~~H. Policy on recording of conversations~~

- ~~In line with good practice, all conversations relating to deals with either brokers or direct dealing institutions are recorded. The recordings are to be kept for a minimum period of one year.~~

I. Direct dealing practices

- Direct dealing is carried out with institutions identified in the Operations Manual subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Council will ensure that each counterparty has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.

J. Settlement transmission procedures

- The preferred method of transmitting information relating to deals is by email.

K. Documentation requirements

- Copy of CHAPS form confirming transmission of funds to counterparty
- Broker/direct dealer documentation confirming counterparty, deal amount, maturity date and rate.

L. Arrangements concerning the management of third-party funds.

- The following funds are managed by South Somerset District Council:

- Joint Burial Committee
- Dorcas House Trust
- ACI Chard Regeneration Scheme

However, there are small amounts of money held on behalf of third parties that have been held for many years. These sums are immaterial and absorbed into the cash balances of the Council. There being no further interest payable, the principal will be repaid to the third party on the production of appropriate documentation.

TMP 6: Reporting Requirements and Management information arrangements

Principle: The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, Full Council will receive:

a) An annual report on the strategy and plan to be pursued in the coming year
b) A mid-year review
c) An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

In line with the Prudential Code 2017, Council may choose to delegate (b) and (c) to the Audit Committee (or other committee).

The Audit Committee will receive regular monitoring reports on treasury management activities, performance and risks usually in the form of the mid-year and annual reports subsequently presented to Full Council.

The Audit Committee will have responsibility for the scrutiny of treasury management policies, practices and performance.

Schedules:

A. Capital Strategy

- This is a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments. It is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

  The Capital Strategy will include:

  - Capital expenditure, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions.
  - Commercial activities, including due diligence processes, the authority's risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements.
  - Long-term context in which capital expenditure decisions are made for the above, risk and reward considerations and impact on the achievement of priority outcomes.
  - Debt management, including projections for the level of borrowing, capital financing requirement and liability benchmark, provision for the repayment of debt, the

authorised limit and operational boundary for the coming year and the authority's approach to treasury management.
  - Other long-term liabilities, such as financial guarantees.
  - Knowledge and skills, including a summary of that available to the authority and its link to the authority's risk appetite.

- The strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.
- The Section 151 Officer will report explicitly on the affordability and risk associated with the Capital Strategy and, where appropriate, have access to specialised advice to enable the members to reach their conclusions.
- The Section 151 Officer will also ensure that where detailed information is required, this will be made available in a format to encourage active engagement and, if necessary, any associated training needs of members.

B. Frequency of executive reporting requirements

- The responsible officer will annually submit budgets and will report on budget variations as appropriate.

- The responsible officer will submit the Treasury Strategy Statement (including Annual Investment Strategy) and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to Full Council before the start of the year.

- A Mid-Year Treasury Report will be prepared by the responsible officer, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Full Council during the year.

- The Annual Treasury Report will be prepared as soon as practicable after the financial year end.

- All of the above reports will also be submitted to Audit Committee, who will be responsible for the scrutiny of treasury management policies and practices.

C. Content of Reporting: 1. Prudential Indicators

- The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of:

  - Financing costs as a proportion of net revenue stream (estimate; actual)
  - Capital expenditure (estimate; actual)
  - Capital Financing Requirement (estimates; actual)
  - Authorised limit for external debt
  - Operational boundary for external debt
  - Treasury Management Indicators
  - Upper and lower limits to maturity structure of fixed rate borrowing
  - Upper limit to total of principal sums invested longer than 364 days.

- The Prudential Indicators are approved and revised by Full Council and are integrated into the Council's overall financial planning and budget process.

- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

D. Content of Reporting: 2. Treasury Strategy Statement including the Annual Investment Strategy

- The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:

    - Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years
    - Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt
    - the extent to which surplus funds are earmarked for short term requirements
    - the investment strategy for the forthcoming year(s)
    - the minimum to be held in short term/specified investments during the coming year
    - The interest rate outlook against which the treasury activities are likely to be undertaken.

  Note: The MHCLG Investment Guidance 2018 requires the Council to prepare an annual Capital Strategy. Most if not all Prudential Indicators will be included in the Capital Strategy which will be considered for approval in February.

- Based on the MHCLG's Guidance on Local Authority Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out
    - the objectives, policies and strategy for managing its investments;
    - the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council's economic and investment outlook and the expected level of investment balances;
    - the limits for the use of Non-Specified Investments.

- The AIS will be integrated into the Treasury Strategy Statement.

- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

E. Content of Reporting: 3. Mid-Year Treasury Report

- The Finance Specialist will produce a mid-year report for Full Council on the borrowing and investment activities of the treasury management function (including performance of fund managers) for the first six months of the financial year.

- The main contents of the report will comprise:

    - Economic background
    - Economic forecast (including interest rates forecast)
    - Treasury Management Strategy Statement update
    - Performance versus benchmarks
    - Borrowing information (including premature repayment, new loans information)
    - Information on investments, including current lending list
    - Prudential indicators relating to treasury management
    - Governance framework and scrutiny arrangements

- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

F. Content of Reporting: 4. Annual Treasury Report

- The Finance Specialist will produce an annual report for Full Council on all activities of the treasury management function as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.

- The main contents of the report will comprise:

- confirmation that the Council calculated its budget requirements and set a balanced budget for the forward year;
- the prevailing economic environment
- a commentary on treasury operations for the year, including their revenue effects;
- commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council
- compliance with agreed policies/practices and statutory/regulatory requirements
- compliance with Prudential Indicators;
- performance measures.

- The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

G. Content and frequency of management information reports

- Management information reports will be prepared each quarter by the Finance Specialist and will be presented to the S151 Officer.

- These reports will contain the following information: -

  - Summary cash flow forecasts
  - Information on investment in Bonds, Certificates of Deposits and Treasury Bills.
  - Details of in-house investments, including interest to date, benchmark rate and rate achieved, and forecast of interest for the remainder of the year.
  - Details of fees payable.
  - Current and forecast borrowing requirement, analysed between internal and external borrowing
  - Forecast of surplus/deficit for the financial year against treasury budgets (interest costs and income).
  - Narrative highlighting performance, opportunities, risks and any areas of concern or areas of note.

TMP 7: Budgeting, accounting and audit arrangements

Principle: The Responsible Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The form which the Council's budget will take is set out in the schedule below.

The Responsible Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule:

A. Statutory/regulatory requirements

- The framework for accounting in local government comes from the Code of Practice on Local Authority Accounting in the UK and related Guidance issued by CIPFA.

B. Proper accounting practice

- CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

C. Financial Statements

- The Council's financial statements are produced annually, reported to the Audit Committee for approval and published on the Council's website.

D. Treasury-related information requirements of external auditors

- The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers. Information in this context includes internally generated documents including those from the Council's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.

  - Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
  - Prudential Indicators.
  - Treasury Management Strategy including Annual Investment Strategy.

- External Borrowing

  - New loans borrowed during the year: PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)
  - Loan maturities
  - Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.
  - Analysis of loans outstanding at year end including maturity analysis
  - Analysis of borrowing between long- and short-term
  - Debt management and financing costs
  - calculation of (i) interest paid (ii) accrued interest
    interest paid
  - MRP calculation and analysis of movement in the CFR
  - Bank overdraft position.
  - Brokerage/commissions/transaction related costs

- Investments:

  - Investment transactions during the year including any transaction-related costs
  - Cash and bank balances at year end
  - Short-term investments at year end
  - Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end
  - Calculation of (i) interest received (ii) accrued interest
  - Actual interest received
  - External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)
  - Basis of valuation of investments
  - Evidence of existence and title to investments (e.g. Custodian's Reports
  - Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.

- Cash Flow:

  - Reconciliation of the movement in cash to the movement in net debt
  - Cash inflows and outflows (in respect of long-term financing)
  - Cash inflows and outflows (in respect of purchase/sale of long-term investments)
  - Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources

E. Internal Audit

- Internal Audit generally conducts an annual review of the treasury management function and probity testing, as one of the key control audits included in the Audit Plan. This may be reviewed less frequently if the level of assurance is "Substantial".

- The internal auditors will be given access to treasury management information/documentation as required by them.

F. Compliance with CIPFA Treasury Management and Prudential Codes

- Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.

- Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.

<u>TMP 8: Cash and cash flow management</u>

Principle: Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [2] liquidity risk management. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.

Schedules:

A. Arrangements for preparing /submitting cash flow statements

- The Case Services Officer (JP) prepares the monthly cash flow statement and the daily cash flow statement in liaison with the Finance Specialist. Information from both statements is then used to plan investments and borrowing. The forecasts should be maintained for a minimum of six months ahead.

- The Finance Specialist also prepares a long-term cash flow forecast covering the current financial year and the next two financial years.

- The cash flow forecasts and statements are held at operational level.

- The accuracy and effectiveness of the Council's cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.

B. Content and frequency of cash flow projections

- The detailed annual cash flow model includes the following:
  - revenue income and expenditure based on the budget as updated for known material variances.
  - profiled capital income and expenditure as per the capital programme
  - profiled collection fund tax revenues and distribution schedules

C. Monitoring, frequency of cash flow updates

- The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with:
  - net funding through Government Grants and business rates receipts and payments as notified;
  - rental income received from property portfolios;
  - income from loans supporting service outcomes;
  - precept payments;
  - actual salaries and other employee costs paid from account bank statements;
  - actual payments to Inland Revenue from general account bank statements;
  - actual council tax received
  - actual rent allowances paid
  - actual housing benefit payments and subsidy income;
  - actual capital programme expenditure and receipts.

D. Bank statements procedures

- The Council has access to view bank statements on its banking system as required. These are reconciled to the general ledger on a monthly basis.

E. Payment scheduling

- Major payments to creditors are pre-arranged and usually bypass the normal creditors payment processing, ie they are paid via the CHAPS system. Of the remaining creditors, statute requires that invoices are paid within 30 days of receipt. Current agreed practice is that invoices will be paid within 10 working days or in accordance with the creditor's supplier terms, this is in line with the prompt payment code we have signed up to.

F. Monitoring debtor and creditor levels

- Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report to the service managers which includes an analysis of debt by age.

- The level of Creditor invoices being processed is monitored on a monthly basis by the responsible staff within the Case Services Team.

G. Banking of funds

- Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received are banked weekly.

- Staff are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the particular insurance limits for the Council's premises.

H. Listing of sources of information

- The treasury function receives cash flow information for the following:-
  - Government information eg NNDR/RSG/RSDG/NHB payments and dates
  - Information from other outside bodies eg Somerset County Council precepts and dates
  - Debtor payments
  - Creditor payments
  - Housing Benefit payments
  - Direct Debit payments
  - Monthly salaries & wages
  - Capital Programme

I. Practices concerning prepayments to obtain benefits

- Income received in advance from debtors is credited to their respective account. No interest or discount is given for early settlement.

TMP 9: Money Laundering

Background: The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
- Acquiring, using or possessing criminal property.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In June 2017, the UK Government published the Money Laundering Regulations 2017, replacing previous regulations.

CIPFA believes that public sector organisations should "embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities".

Principle: The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff members involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.

Schedules:

A. Anti money laundering policy

- This Council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

- The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.

B. Treasury documentation

- The Council will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include:
  - Awareness of what constitutes money laundering
  - The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed
  - Maintaining up-to-date direct dealing and SSI mandates with counterparties

C. Nomination of Responsible Officer

- The Council has nominated the Section 151 Officer to be the Money Laundering Responsible Officer (MLRO) to whom any suspicions relating to transactions involving the Council will be communicated.

- The responsible officer will be conversant with the requirement for the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.

- The responsible officer will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).

D. Procedures for establishing the Identity of Lenders and Borrowers

- In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.

- The Council will not accept loans from individuals.

- In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.

- The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via Bank of England/Prudential Regulation Authority's website.

- All receipts/disbursements of funds will be undertaken by CHAPS settlement.

- Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed.

- All banking transactions will only be undertaken by the staff authorised to operate the Council's banks accounts.

- When receiving request for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details.

TMP 10: Training and qualifications

Principle: The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Lead Specialist – Finance will recommend and implement the necessary arrangements.

The responsible officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Schedule:

A. Qualifications/ experience for treasury staff

- CCAB part or fully qualified
- Member of the Association of Accounting Technicians part or fully qualified

B. Details of approved training courses

The courses/events the Council would expect its treasury staff to consider are

- Training courses for Accounting, Auditing, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA and the Association of Corporate Treasurers and other appropriate organisations
- Any courses/seminars run by Treasury Management Consultants/Advisors.
- Attending CIPFA Conference
- Training attended by those responsible for scrutiny of the treasury function

Records of training received by treasury staff

- The Council participates in the CIPFA/ACCA/CIMA Employer Accreditation Schemes for CPD purposes which is based on planning, recording and evaluating development. Employees are required to register with the scheme and declare participation in the CPD scheme annually.

TMP 11: Use of external service providers

Principle: The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule below.

Schedule:

A. Banking services

- Service provided by: National Westminster Bank plc
- Contract commenced 1/10/14 and runs until 31/3/20, with a 2-year optional extension period from 01/04/20
- Payments due quarterly in arrears and monthly for the electronic banking service.
- Terms for early termination of the contract: The organisation may terminate the agreement at any time by 3 months' written notice to the Manager and the Manager may terminate the agreement on 3 months' written notice to the organisation.

B. Money-broking services

- Service Providers:-
  - Martin Brokers (UK) plc
  - Kings and Shaxson
  - Tradition UK

C. Cash/fund management services

- None

D. Consultants'/advisers' services

- Name of supplier of service – Arlingclose Ltd.
- Contract commenced 1 July 2019 and expires on 30 June 2022, with the option to extend for a further two years in accordance with the relevant terms of the agreement
- Payments due annually on 1 July
- Terms for early termination of the contract: The Council may terminate the agreement by giving three months' notice.

E. Bribery Act

- The Council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers.

TMP 12: Corporate governance

Principle: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council applies the key recommendations of the Treasury Management Code of Practice. This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule:

A. List of documents to be made available for public inspection.

- Annual Statement of Accounts
- Treasury Management Policy
- Capital Strategy
- Treasury Management Strategy
- Budget Reports
- Budget Monitoring Reports
- Annual and Mid-Year Treasury Report
- Council Committee Agendas and Minutes

B. Council's website

- Financial information is additionally available on the Council's website

C. Procedures for consultation with stakeholders

- Members and senior officers of the Council are consulted via reports to Senior Leadership Team, Leadership Meeting, District Executive and officer/member briefing sessions.

TMP13: Non-Treasury Management Investments

Principle: The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all of its investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

Schedule:

- A published schedule agreed by Council setting out the organisation's investment management practices for non-treasury investments will be complied with by all officers responsible for such investments.

- A schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure.

- CIPFA suggests that authorities should replicate TMP 1-12 under the TMP for non-treasury management investments, as far as this is relevant, practicable and applicable. It particularly listed TMPs 1, 2, 5, 6, and 10. Details of the relevant TMP's are below: -

  - Risk management (TMP1) including investment and risk management criteria for material non-treasury investment portfolios
  - Performance management (TMP2) including methodology and criteria for assessing the performance and success of non-treasury investments
  - Decision-making and analysis (TMP5) including a statement of the governance requirements for decision-making in relation to non-treasury investments, and arrangements to ensure that appropriate professional due diligence is carried out to support decision making
  - Reporting requirements and management information arrangements (TMP6) including where and how often monitoring reports are taken
  - Training and qualifications (TMP10) including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Agenda Item 10

2020/21 Treasury Management Mid-Year Performance Report and Strategy Update

Director: *Nicola Hix, Support Services*
S151 Officer: *Jo Nacey*
Lead Officer: *Paul Matravers, Specialist (Finance)*
Contact details: *paul.matravers@southsomerset.gov.uk or 01935 462275*

Purpose of Report

1. To present the Council's 2020/21 mid-year treasury performance report and seek support of Members for updates to the Treasury Management Strategy for the remainder of the financial year.

Recommendation

2. The Audit Committee is asked to note the actual and forecast treasury performance, and endorse the updated Treasury Management Strategy Statement and Investment Strategy for recommendation to Council.

Introduction and Background

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

4. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Treasury Management Strategy.

5. In line with the requirements of the 2017 Prudential Code, Council approved the Capital, Investment and Treasury Strategy in February 2020. These are intrinsically linked so, whilst in the past these have been presented to Members as separate reports, they were pulled together into a consolidated document this year.

6. This report provides information on the performance of the Council's Treasury Investments for the first six months of the 2020/21 financial year. The performance of the Council's Commercial Investments which are part of the Commercial Strategy is reported separately through 6-monthly update reports therefore that detail is not included in this report. On this basis it is worth noting that whilst the treasury income and cost implications of commercial investment acquisitions are included within this report, the investment property income is not.

7. CIPFA has defined Treasury Management as: "the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

8. The Council has delegated responsibility for the oversight and monitoring of its treasury management policies and practices to Audit Committee, and for the execution and administration of treasury management decisions to the S151 Officer who will act in accordance with the organisation's policy statement and Treasury Management Practices (TMPs), and CIPFA's standard of Professional Practice on Treasury Management.

9. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Specific risks are identified in the Council's approved Treasury Management Practices. The risks include:

- Liquidity Risk (Adequate cash resources)
- Interest Rate Risk (Fluctuations in the value of investments and borrowing).
- Inflation Risks (Exposure to inflation)
- Fraud, Error and Corruption, and Contingency Management (Exposure to loss through fraud, error or other eventualities)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).

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

11. When the strategy for 2020/21 was written it took into account the Council's current treasury position and drew upon the forecasts for interest rates provided by the Council's treasury advisors, Arlingclose, leading to the proposed Prudential Indicators included. This has been updated with the most recent forecast as at September 2020.

12. The updated Treasury Management Strategy is attached at Appendix 1.

13. The remainder of the report provides information on:

- Regulatory updates
- Treasury Management Position
- Current Borrowing
- Treasury Investment Activity
- Pooled Fund Investments
- Non Treasury Investments

Treasury Management Position – Summary

14. The treasury management position as at 30th September 2020 and the change during the year is shown in the Table 1.

Table 1: Treasury Management Position - Summary

	31/3/20 Balance £m	**Net Movement £m**	**30/9/20 Balance £m**
Long-term borrowing	0.00	0.00	0.00
Short-term borrowing	-79.50	14.00	-65.50
Total borrowing	**-79.50**	**14.00**	**-65.50**
Long-term investments	2.00	-1.00	1.00
Short-term investments	8.00	-6.00	2.00
Cash and cash equivalents	22.43	2.14	24.57
Total investments	**32.43**	**-4.86**	**27.57**
Net Position	**-47.07**	**-19.32**	**-37.93**

15. External borrowing has decreased during the first six months of the year due to a significant element of the loan portfolio maturing in this period. Cashflow has meant that not all of the matured borrowing needed replacing. In addition, during the period there has been no investment property acquisitions as part of the Commercial Strategy. These acquisitions are financed by external borrowing. In line with treasury advice, the Council continues to utilise short term borrowing, which is flexible and keeps our borrowing costs low.

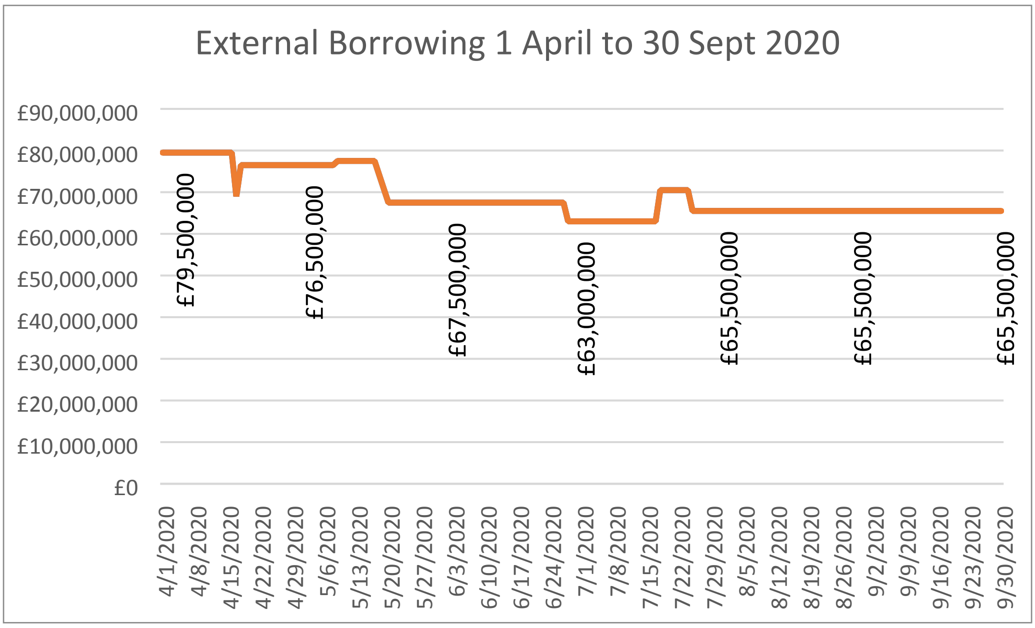
16. The Council has agreed £26m of borrowing with forward start dates taking the total value of external borrowing, either in place or committed, to £91.5m. £16m of this amount is due to start in late October and the remaining £10m has a start date of mid-March 2021. Forward starting borrowing removes an element of the interest rate risk that is associated with an investment or debt portfolio.

17. The projected value of long term borrowing as at 31 March 2021 was reported to Audit Committee in February 2020 in the Annual Treasury Management Strategy report. The external borrowing requirement at the end of the 2020/21 financial year was anticipated to be £112m, therefore the total borrowing to date is in line with the projections previously reported and continue to remain valid.

18. The amount of external borrowing will be dependent on the commercial property purchases that are made in the remaining part of the financial year which may mean the borrowing may be more or less than estimated at year end. In addition, it may be advantageous to continue to meet the financing requirement using short term rather than long term borrowing, however this is kept under review to strike the appropriate balance between costs and cost certainty.

External Borrowing

19. The graph shows the movement in the external borrowing position for 2020/21. It provides the amount of external borrowing on the first day of each month for the April to September period and the value of borrowing at 30 September 2020 (£65.5m).



20. Table 2 summarises the external borrowing position for 2020/21. It includes the opening position in respect of external loans, loans repaid, new loans, the average interest rate and the position as at 30th September.

Table 2: External Borrowing Summary

	Amount	Average Interest rate
External loans as at 1 April 2020	**79,500,000**	0.86%
New Loans	48,000,000	0.85%
Loans Repaid	-62,000,000	
Total External loans as at 30 Sept 20	**65,500,000**	1.44%
Forward starting Loans	26,000,000	0.24%
Total Loans	**91,500,000**	**1.04%**

21. The total value of external borrowing repaid in the first six months of 2019/20 was £62m, which included £52.5m of short-term borrowing undertaken in the previous financial year. See table 3 for details.

Table 3: Loans repaid - 2019/20 borrowing

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
Hampshire County Council	18/04/2019	17/04/2020	365	1.01%	5,000,000
South Yorkshire Pensions Authority	20/11/2019	20/05/2020	182	0.85%	5,000,000
Comhairle Nan Eilean Siar	20/11/2019	20/05/2020	182	0.85%	5,000,000
Staffordshire County Council	17/01/2020	17/04/2020	91	0.80%	5,000,000
Essex County Council	20/01/2020	17/04/2020	88	0.76%	10,000,000
East London Waste Authority	20/01/2020	20/04/2020	91	0.79%	3,000,000
City of Lincoln Council	20/01/2020	20/04/2020	91	0.78%	1,000,000
Tyne & Wear Pension Fund	20/01/2020	20/04/2020	91	0.79%	3,000,000
Dudley Metropolitan Borough Council	18/02/2020	27/04/2020	69	0.82%	5,000,000
Waverley Borough Council	19/02/2020	17/04/2020	58	0.85%	5,000,000
Lancaster City Council	18/03/2020	20/04/2020	33	1.05%	4,000,000
Gosport Borough Council	20/03/2020	20/04/2020	31	1.40%	1,500,000
				Total	**52,500,000**

22. The balance of £9.5m is in respect of the repayment of new borrowing taken for short durations between 1 April and 30 September 2020, the detail of the loans is included in the Table 4.

Table 4: Loans repaid - 2019/20 borrowing

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
Hertfordshire County Council Pension Fund	17/04/2020	30/06/2020	12	1.85%	4,500,000
Northern Ireland Housing Executive	27/04/2020	27/07/2020	10	0.80%	5,000,000
				Total	**9,500,000**

23. The total value of new borrowing for the first six months of 2020/21 was £48m. £9.5m of the loans taken were repaid in the period, details of the loans are in included in Table 5.

Table 5: 2019/20 new borrowing - Loans repaid

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
Cornwall Council	17/04/2020	16/04/2021	364	1.75%	10,000,000
Hertfordshire County Council Pension Fund	17/04/2020	30/06/2020	74	1.85%	4,500,000
Wychavon District Council	20/04/2020	19/04/2021	364	1.75%	5,000,000
Derbyshire County Council	20/04/2020	20/10/2020	183	1.85%	10,000,000
Shropshire Council	20/04/2020	20/10/2020	183	0.85%	5,000,000
Northern Ireland Housing Executive	27/04/2020	27/07/2020	91	0.80%	5,000,000
Ryedale District Council	11/05/2020	10/05/2021	364	1.75%	1,000,000
Vale of Glamorgan Council	20/07/2020	19/01/2021	183	0.35%	2,500,000
PCC for West Yorkshire	20/07/2020	01/02/2021	196	0.36%	5,000,000
				Total	**48,000,000**

24. The balance of £65.5m is the value of external borrowing as at 30 September 2020, the detail of the loans are included in Table 6. The table shows that we have prioritised the inter-authority lending market, with the short-term loan interest rates ranging from 0.35% to 1.75%.

Table 6: External borrowing as at 30 September 2020

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
North Yorkshire County Council	20/03/2020	19/03/2021	364	1.75%	5,000,000
Tendring District Council	20/03/2020	19/03/2021	364	1.75%	1,000,000
Greater London Authority	20/03/2020	19/03/2021	364	1.75%	6,000,000
Milton Keynes Council	27/03/2020	26/03/2021	364	1.60%	5,000,000
Greater London Authority	30/03/2020	29/03/2021	364	1.75%	10,000,000
Cornwall Council	17/04/2020	16/04/2021	364	1.75%	10,000,000
Wychavon District Council	20/04/2020	19/04/2021	364	1.75%	5,000,000
Derbyshire County Council	20/04/2020	20/10/2020	183	1.85%	10,000,000
Shropshire Council	20/04/2020	20/10/2020	183	0.85%	5,000,000
Ryedale District Council	11/05/2020	10/05/2021	364	1.75%	1,000,000
Vale of Glamorgan Council	20/07/2020	19/01/2021	183	0.35%	2,500,000
PCC for West Yorkshire	20/07/2020	01/02/2021	196	0.36%	5,000,000
				Total	**65,500,000**

25. Details of the forward starting loans are included in Table 7 for information.

Table 7: Forward starting loans as at 30 September 2020

Lender	Date Borrowed	Maturity Date	No of Days	Interest Rate	Amount £
Great Yarmouth Borough Council	20/10/2020	20/07/2021	306	0.2000	2,000,000
Runnymede Borough Council	20/10/2020	20/08/2021	273	0.2300	3,000,000
Mid Devon District Council	20/10/2020	20/07/2021	304	0.2000	3,000,000
Police & Crime Commissioner for Gloucestershire	20/10/2020	20/04/2021	273	0.1500	3,000,000
Northern Ireland Housing Executive	20/10/2020	20/07/2021	182	0.2000	5,000,000
Great Yarmouth Borough Council	20/10/2020	20/07/2021	306	0.2000	2,000,000
London Borough of Wandsworth	19/03/2021	19/01/2022	306	0.4500	10,000,000
				Total	**28,000,000**

26. The above information in Tables 2-7 show that the current strategy of utilising short-term inter-authority lending for the Council's treasury borrowing requirement means interest rates and costs are relatively low. The exception to this is a period in March 2020 when borrowing was expensive as the demand for cash was high due to an anticipated shortage of cash available in the market. The anticipated lack of cash in the market was due to the expected income shortfall in respect of Council Tax and Non Domestic Rates meaning that a premium was being paid for borrowing for this period.

27. The tables demonstrate that rates have significantly reduced in the April to September period and short term borrowing for a 6 month period can now be sourced in the region of 0.20% - 0.30%. Borrowing for short periods takes advantage of the low rates on offer, and accepts an element of interest rate risk at the point of re-financing. The S151 Officer and treasury staff will continue to keep this under review, and will consider utilising long term borrowing in future to minimise interest risk and provide cost certainty.

Treasury Investment Activity

28. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the first six months of the financial year the Council's investment balance has ranged between £29 million and £86 million.

29. The investment balance of £86 million was on 3 April 2020, the reason for the unusually high investment balance was due to MHCLG providing the £41m to the Council in respect of the Business Support Grants. The funds were invested in the Council's Money Market Funds, ensuring instant access to the funds and the Debt Management Office for short periods.

30. The balance on the business grants as at 30 September 2020 was £2.3m, meaning 94% of the business grant funding has been distributed to local businesses.

Breakdown of investments as at 30 September 2020

Table 8: Investments as at 30 September 2020

Date Invested	Counterparty	Nominal Amount £	Interest Rate	Maturity Date
11/11/16	Northumberland County Council	1,000,000	1.00%	11/11/20
	Corporate Bonds			
20/10/16	Santander UK Plc *Covered*	1,000,000	1.04%	14/04/21
10/11/16	National Australia Bank *Covered*	1,000,000	1.10%	10/11/21
	Money Market Funds & Business Reserve Accounts			
Various	Santander Business Reserve	3,000,000		
Various	Aberdeen (previously Standard Life)	360,000	0.75%	Not fixed
	Total Internal Investments	**6,360,000**	**0.95%**	
	Property & Pooled Funds			
Various	Royal London Cash Plus Fund	1,000,000	1.41%	Not fixed
Various	CCLA Property Fund	6,000,000	5.52%	Not fixed
Various	Ninety One Diversified Income Fund (formerly Invetec)	5,000,000	4.07%	Not fixed
Various	Schroder Income Maximiser Fund	6,250,000	5.20%	Not fixed
Various	Colombia Threadneedle Equity Income Fund	5,000,000	2.48%	Not fixed
Various	Fidelity	250,000	-	Not fixed

Date Invested	Counterparty	Nominal Amount £	Interest Rate	Maturity Date
	Total External Investments	**23,500,000**	**3.60%**	
	Total Investments	**29,860,000**	**3.58%**	

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

***Covered Bond:** Debt securities issued by a bank or mortgage institution and are backed by a separate group of assets; in the event of failure of the issuer, the bond is covered. Covered bonds are subject to specific legislation to protect bond holders.

31. The Council has increased its strategic fund investments to £23.5m (£0.25m increase) and it is estimated that the level of strategic investments as at 31 March 2021 will remain in the region of £24m. The long term strategy is to invest up to £30m in strategic investments if cashflow permits.

Pooled Fund Investment - Values

32. The Council's pooled fund investments are held in externally managed funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. This fits with the objectives of the Council's overall Financial Strategy.

33. In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and considerable. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.

34. The Council has investments in bond, equity, multi-asset and property funds. The fall in the capital values of the underlying assets, in particular bonds and equities were reflected in the 31st March 2020 fund valuations with most funds registering negative capital returns over a 12-month period. Since March there here has been some improvement in market sentiment which is reflected in an increase in capital values of the short-dated, strategic bond, equity income and multi-asset income funds in the Council's portfolio. The capital value of the property fund is below that at 31st March. Market values at 1st April and 30th September 2020 are as shown in Table 9, below.

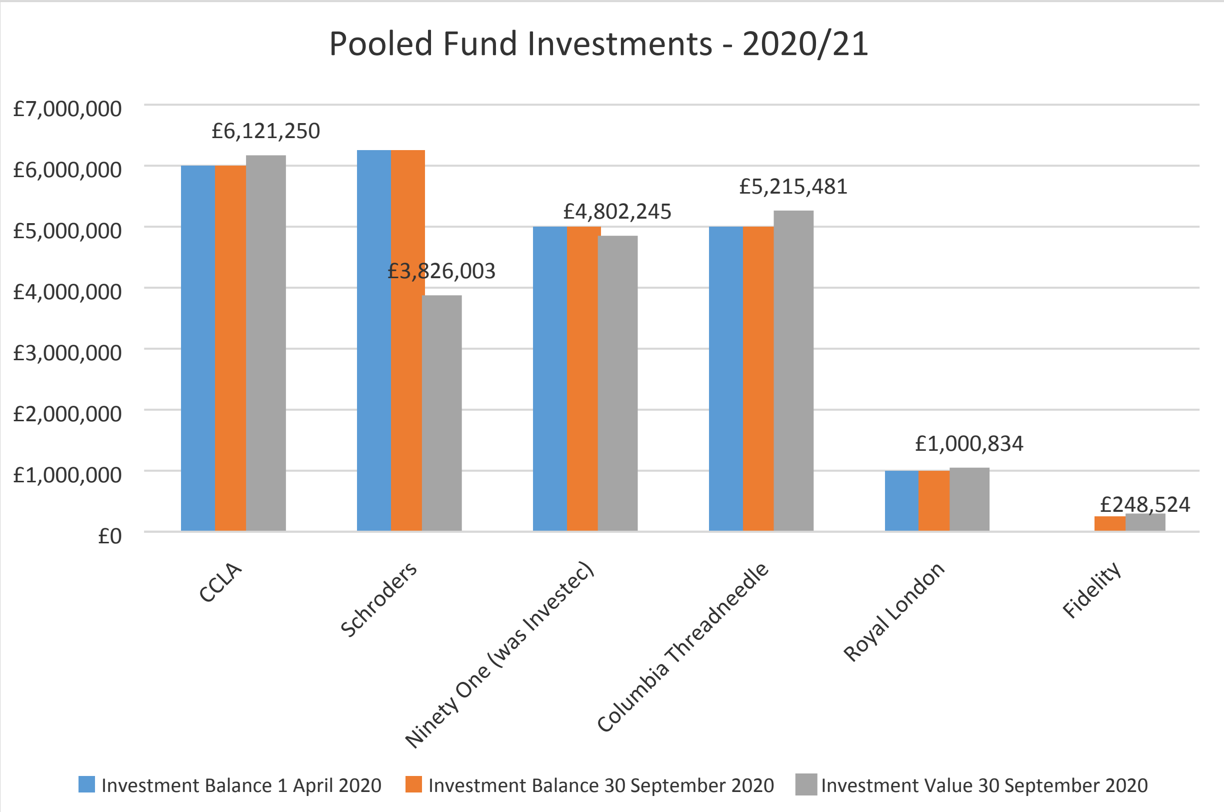
35. Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions in March as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions.

36. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors will be required to give at least 90 calendar days' notice for redemptions.

37. In 2020/21 the Council expects to receive lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019/20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral

asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

38. The investment balance as at 30 September 2020 and the value of each investment as at 1 April and 30 September is detailed in the chart below.



Note: Pooled fund investments are revalued to reflect the fair value of the investment, the second and third bars in the graph signifies this value at 1 April and 30 September. The first bar represents the nominal investment balance in each fund at 30 September.

39. Table 9 below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year-end and mid-year valuation. The table shows that the 'fair value' of the portfolio has increased by £494k (excludes Fidelity) which is an increase of 2.41% between 1 April and 30 September, reflecting volatility in market value. The strategy works on the basis that investment values will go up and down but annual income return remains positive, and the Council would not plan to redeem the investment when its value is below the nominal balance unless this would be a prudent course of action.

Table 9: Pooled Fund Investments as at 30 September 2020

Investment	**Investment Balance 30/09/2020 £**	**Investment Value 01/04/2020 £**	**Investment Value 30/09/2020 £**
CCLA	6,000,000	6,386,905	6,121,250
Schroders	6,250,000	3,809,476	3,826,003
Investec	5,000,000	4,513,261	4,802,245
Colombia Threadneedle	5,000,000	4,772,497	5,215,481
Royal London	1,000,000	989,288	1,000,834
Fidelity	£250,000	£0	248,524
Total	**23,500,000**	**20,471,426**	**21,214,337**

Pooled Fund Investment – Income Return

40. The income generated from pooled fund investments for the first six months of 2020/21 and the rate of return is detailed in the following graph and Table 10. This demonstrates that the investment in the Schroder Income Maximiser and CCLA Funds have performed well in terms of income and rate of return on investment.

41. In addition, the investment value of the majority of the funds has increased in the period. This increase has been in the latter months as the investment values of the funds has marginally increased in the period. Overall the return on pooled funds has positively averaged over 4% during the first six months of the financial year.

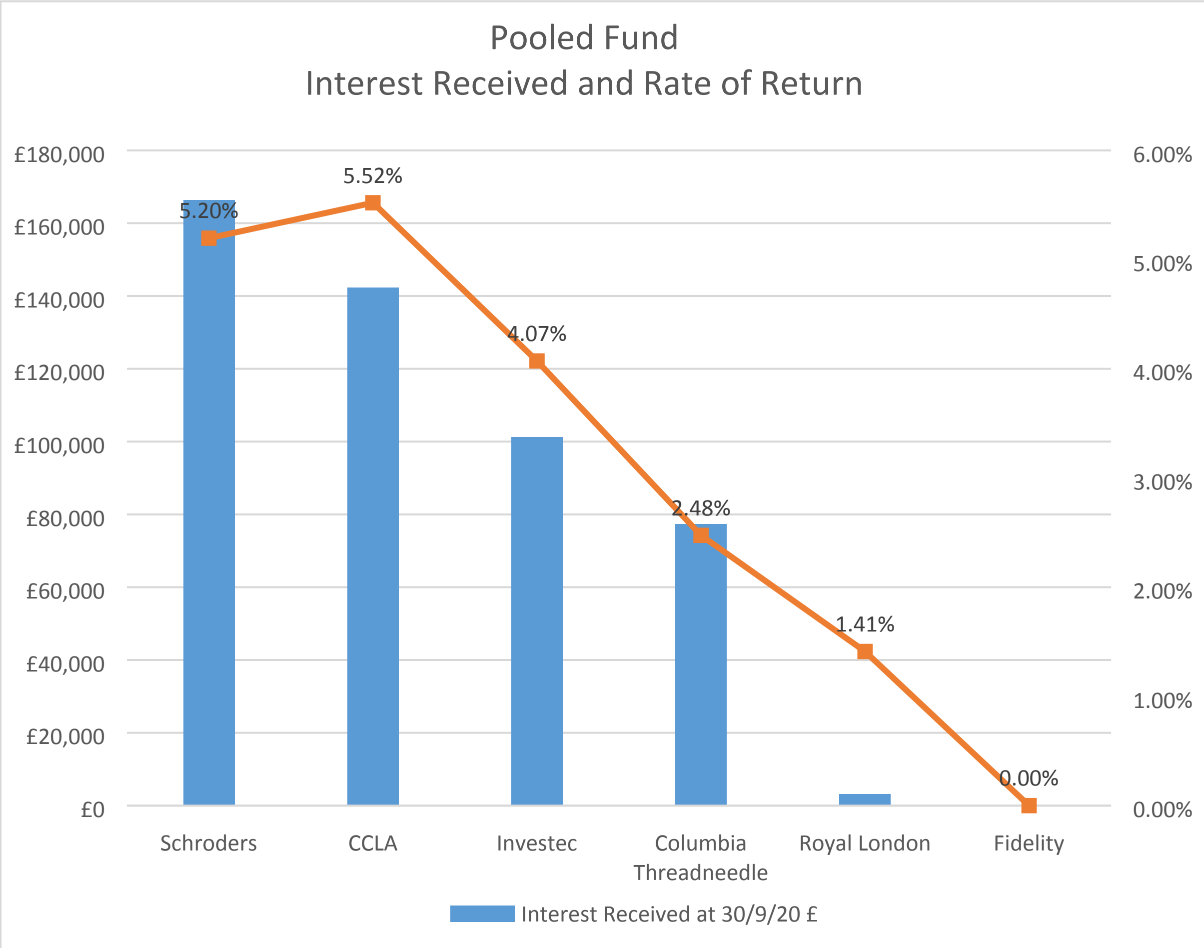


Table 10: Pooled Fund Investment Interest

Fund	Interest Received £	Rate of return %
Schroders	166,380	5.20%
CCLA	142,304	5.52%
Investec	101,187	4.07%
Columbia Threadneedle	77,384	2.48%
Royal London	3,224	1.41%
Fidelity	£0	0.00%
Total	**490,479**	**4.21%**

Non-Treasury Investments

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

43. In addition to its treasury investments, the Council also held £17.50m in other investments in the form of loans. The largest element of these loans represents the Council's loan invested as part of its commercial investment property portfolio.

- Loan to Community Organisation - £0.15m
- Loan to Trading Company - £0.13m
- Loan to Local Authority Partnership - £4.90m
- Loan for Commercial Activities - £12.32m

44. The detail of the Council's total investment in commercial investment property is reported separately. As part of its Commercial Strategy, investment in property has increased significantly in the past two years, and this will continue to grow over the next 2-3 years. The value of investment properties held on the balance sheet as at 31 March 2020 (including some properties held for a substantial period of time) was £71.97m. This has increased by £0.23m during this year, to £72.20m as at 30 September 2020 (not including the loan shown in the previous paragraph).

Financial Implications

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

Background Papers: *Treasury Management Strategy 2020/21 (Full Council February 2020)*

Appendix 1

Treasury Management Strategy Statement 2020/21 (Updated October 2020)

Introduction

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

In addition, the Ministry of Housing, Communities and Local Government (MHCLG) revised guidance on Local Authority Investments and Minimum Revenue Provision (MRP) in February 2020. The guidance requires the Council to approve an investment strategy before the start of each financial year.

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

The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

Revised strategy: In accordance with the MHCLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Council's capital programme or in the level of its investment balance.

External Context

Economic background: Coronavirus continued to dominate the news flow during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates continued to not be ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes took financial markets by surprise highlighting the central bank was having a harder look at its potential impact than was previously suggested.

Government initiatives continued to support the economy throughout the period, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.
GDP growth contracted by a massive 20.4% in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.7%. Construction output fell

by 35% over the quarter, services output by almost 20% and production by 17%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.
The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8 and 9%.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is 'moderately' above the 2% average target, particularly given it has been below target for most of the last decade.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

Financial markets: Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their pre-crisis losses. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield fell to -0.18% on 18th September. The 10-year yield was 0.17% at the start and end of the same period (with much volatility in between, peaking at 0.34% towards the end of August), while the 20-year rose from 0.56% to 0.69%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.25% respectively over the quarter.
Over the same period, the yield on 2-year US treasuries slipped from 0.15% to 0.13% while the yield on 10-year treasuries rose slightly from 0.66% to 0.69%. German bund yields remain negative across most maturities.

Credit review: Credit default swap spreads continued to ease over the period to slightly above their pre-crisis levels. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remains elevated. NatWest Markets Plc (non-ringfenced) remains the highest at 74bps while Standard Chartered the lowest at 42bps. The ringfenced banks are currently trading between 42 and 49bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of Brexit and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Outlook for the remainder of 2020/21

The medium-term global economic outlook is exceedingly weak. While containment measures taken by national governments in response to coronavirus (COVID-19) have been eased, it is likely to be some time before demand recovers to pre-crisis levels due increased unemployment, the on-going need for virus control measures and the impact on consumer/business confidence.

The global central bank and government responses have been significant and will act to support the recovery when it occurs, by keeping financial conditions stable and many businesses solvent/employees employed than would otherwise have been the case. The economic bounce in the second half of the year could be significant, as businesses currently dormant begin production/supply services once more.

However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and government guidance to restrict and control a resurgence of the virus will mean that the subsequent pace of recovery will be patchy and limited.

Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the near future through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be ruled out.

Downside risks remain in the near term, as households and businesses react to an unprecedented set of economic circumstances and the risk of a second wave and Brexit looms closer.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

Local Context

The Council's balance sheet summary and forecast for the current and future financial years is included in Table 1.

Table 1: Balance sheet summary and forecast

	31/3/20 Actual £'000	31/3/21 Estimate £'000	31/3/22 Forecast £'000	31/3/23 Forecast £'000
Capital Financing Requirement (CFR)	95,582	143,179	193,146	209,536
Usable Capital Receipts	(8,702)	(9,223)	(3,204)	(2,039)
Balances & Reserves	(47,199)	(44,200)	(43,900)	(43,850)
Borrowing	(79,500)	(126,600)	(167,800)	(195,500)
Net Balance Sheet Position **	**(39,819)**	**(36,844)**	**(21,758)**	**(31,853)**

***excluding working capital.*

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council currently has external borrowing of £65.5m (30/09/2020) and has an increasing CFR due to the capital programme. It is anticipated that the borrowing requirement could rise to between £150m - £210m over the forecast period, reflecting the investment in commercial properties and town centre regeneration programmes. The financing approach agreed in the governance for the regeneration programmes is quite elastic meaning the CFR will be determined by supported business cases, the timing of spend, and the ability to raise capital resources through assets sales and external funding.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2020/21.

Borrowing Update

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available, however the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields. £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% has been made available to support specific local Council infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation closed on 31st July 2020 with the announcement and implementation of the revised lending terms expected in the latter part of this calendar year or early next year.

If the Council intends future borrowing through the Municipal Bonds Agency, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

Borrowing Strategy

The Council held external short-term loan finance of £79.5m at 31 March 2020, and this has decreased to £65.5m as at 30 September 2020. The balance sheet forecast in Table 1 shows that the Council expects to borrow additional amounts in 2020/21. The Council may decide to borrow to pre-fund future years' requirements as well, providing this does not exceed the authorised limit for borrowing of £165 million.

The Council continually monitors long term borrowing rates, including the PWLB, with a view to externalising some or all of the current CFR in the near future in order to secure favourable long term borrowing rates. The rates will continue to be monitored by the S151 Officer and advice sought from the Council's treasury management advisors.

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

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead of long-term.

By employing this approach, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Somerset County Council Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council can access long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.

Municipal Bonds Agency (MBA): UK Municipal Bonds Agency PLC was established in 2014 by the Local Government Association as an alternative to the PWLB. The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy and Activity

On 3 April 2020 the Council received Central Government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £41m was received, temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds. £38.7m was disbursed by the end of September.

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the last financial year, the Council's investment balance ranged between £26 million and £47 million. As capital expenditure plans are implemented the investment balances are likely to fall unless these are supported through external funding or borrowing.

Objectives: Both the CIPFA Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council will further diversify into more secure and/or higher yielding asset classes during 2019/20. A proportion of the Council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. The financial strategy seeks to increase and maintain higher levels of investment income and we are therefore actively increasing funds held in strategic treasury investments.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown. There are no proposals to change the limits through the mid-year review of the strategy.

Table 2: Approved investment counterparties and limits

Credit rating	**Banks unsecured**	**Banks secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3 m 5 years	£6 m 20 years	£6 m 50 years	£3 m 20 years	£3 m 20 years
AA+	£3 m 5 years	£6 m 10 years	£6 m 25 years	£3 m 10 years	£3 m 10 years
AA	£3 m 4 years	£6 m 5 years	£6 m 15 years	£3 m 5 years	£3 m 10 years
AA-	£3 m 3 years	£6 m 4 years	£6 m 10 years	£3 m 4 years	£3 m 10 years
A+	£3 m 2 years	£6 m 3 years	£3 m 5 years	£3 m 3 years	£3 m 5 years
A	£3 m 13 months	£6 m 2 years	£3 m 5 years	£3m 2 years	£3 m 5 years
A-	£3 m 6 months	£6 m 13 months	£3 m 5 years	£3 m 13 months	£3 m 5 years
None	n/a	n/a	£6 m 25 years*	n/a	£3 m 5 years
Pooled funds and real estate investment trusts		£10m (nominal value) per fund			

This table must be read in conjunction with the notes below
*includes unrated UK Local Authorities

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £200,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits: The Council's revenue reserves available to cover investment losses were £5.1 million on 31st March 2020. The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£12m per country
Registered providers and registered social landlords	£8m in total
Unsecured investments with building societies	£8m in total
Loans to unrated corporates	£4m in total
Money market funds	£20m in total
Real estate investment trusts	£10m in total

Liquidity management: The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Non Treasury Investments

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

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

The Council's commercial strategy seeks to build its investment property portfolio in order to increase income available to maintain services, in response to reductions in general grant funding from Government. Most if not all of the proposed investment will require financing to be raised through borrowing. This will require the Council to disregard the statutory guidance in respect of 'borrowing in advance of need', and report the rationale for this. The purpose was clearly set out in the Council's approved Commercial Strategy prior to the release of the latest Guidance, and this will be clarified further within the Capital Strategy that is brought to Members in February 2020.

Treasury Management Indicators

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

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30/9/20 Actual	2020/21 Target
Portfolio average credit rating	3.2	5.0

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	30/9/20 Actual	2020/21 Target
Total cash available within 3 months	£7.4m	£10m

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

Interest rate risk indicator	**30/9/20 Actual**	**2020/21 Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.06m	£0.20m
Upper limit on one-year revenue impact of a 1% fall in interest rates		£0.15m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	30/9/20 Actual	**Upper**	**Lower**
Under 12 months	100%	100%	100%
12 months and within 24 months	0%	100%	100%
24 months and within 5 years	0%	100%	100%
5 years and within 10 years	0%	100%	100%
10 years and above	0%	100%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

As the Council doesn't have any fixed rated external borrowing at present the above upper and lower limits have been set to allow flexibility to borrow within any of the maturity bands.

Principal sums invested for periods longer than 365 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2020/21	**2021/22**	**2022/23**
Limit on principal invested beyond year end	£30m	£25m	£25m

Other Items

There are a number of additional items that the Council is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

Policy on the use of financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

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

Investment training: The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment advisers: The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is monitored by measuring:

- The timeliness of advice
- The returns from investments
- The accuracy of technical advice
- Regular market testing
- Regular internal meetings to discuss performance
- Direct access to a nominated advisor
- The quality and content of training courses

Investment of money borrowed in advance of need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £165 million. The maximum period between borrowing and expenditure is expected to be three years, although the Council is not required to link particular loans with particular items of expenditure.

Minimum revenue provision (MRP): MHCLG published updated Minimum Revenue Provision guidance in February 2018. This includes clarification regarding the application of the guidance in respect of investment properties. The 2020/21 MRP Policy Statement is included in **Appendix 1C**, to include specific provisions for investment properties.

Financial Implications and estimates for income

The budget for investment income in 2020/21 is £1,769,210 based on an average interest rate of 3.10%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Investment income in the Council's 2020/21 budget was set against a very different economic backdrop. Bank Rate, which was 0.75% in January/February 2020, now stands at 0.1%. Interest earned from short-dated money market investments will be significantly lower. In relation to income from the Council's externally managed strategic funds, dividends and income distributions will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

The Council has reviewed its expectations for investment income in 2020/21 and has made the following assumptions on strategic investment income shortfalls:

- Bond funds and property funds: 20% lower
- Multi-asset income funds: 25% lower
- Equity income funds: 50% lower

The budget for minimum revenue provision (MRP) for debt repayment in 2020/21 is £920,700.

The interest received as at 30 September 2020 and the projected year-end position is included in **Appendix 1B**.

Other Options Considered

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Alternative	Impact on income and expenditure	Impact on risk management
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

Appendix 1A – Investment & Debt Portfolio Position

EXISTING PORTFOLIO PROJECTED FORWARD

	31/03/19 Actual £'000	31/03/20 Actual £'000	30/09/20 Actual £'000	31/03/21 Estimate £'000	31/03/22 Estimate £'000
External Debt:					
Total External Borrowing	19,500	79,500	66,500	126,600	167,800
Long-term liabilities					
• *Finance Leases**	82	51	51*	51*	51*
Total External Debt	**19,582**	**79,551**	**66,551**	**126,651**	**167,851**
Investments:					
• Short term Deposits	4,000	8,000	1,000	3,500	1,000
• Monies on call and Money Market Funds	480	2,000	3,360	1,500	1,500
• Long term Deposits	1,000			1,000	1,000
• Bonds/CDs	2,000	2,000	2,000	2,000	1,000
• Property Fund & Other pooled funds	23,250	23,250	23,500	25,000	27,500
Total treasury investments	**30,730**	**35,250**	**29,860**	**33,000**	**32,000**
Non-treasury investments:					
• Investment and Loans for Commercial Activities	37,300 157	85,982 149	86,779 144	130,000 140	150,000 132
• Loans to Local Businesses	0	132	132	132	113
• Loan to Local Authority Partnership	1,017	4,921	4,797	4,653	4,669
Total non-treasury investments	**38,474**	**91,184**	**91,852**	**134,925**	**154,914**
Total Investments	**69,204**	**126,434**	**121,712**	**167,925**	**186,914**
(Net Borrowing Position)/ Net Investment position	**49,622**	**46,883**	**55,161**	**41,274**	**19,063**

*Proposed changes to IFRS 16 (Leases) were due to come into effect from 1 April 2019, the date has been revised to 1 April 2021. The revised IFRS 16 retains the concept of operating and finance leases for lessors, but adopts a new accounting model for lessees that will see most leases come onto the balance sheet.

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

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

INTEREST AS AT 30 SEPTEMBER 2020 & YEAR END PROJECTION

	Income as at 30 Sept 20	2020/21 Projected
	£'000	£'000
Investments advised by Arlingclose:		
Money Market Funds	14	20
Pooled Funds	490	750
Advised Investment Total	**504**	**770**
Internal Investments:		
Corporate Bonds	5	10
Fixed Term Deposits	14	16
Business Reserve Accounts	3	4
Internal Investments Total	**22**	**30**
Advised & Internal Investments Total	**526**	**800**
Other Interest:		
Miscellaneous Loans (Net of interest payable on borrowing)	950	1,900
Other Interest Total	**950**	**1,900**
Total Treasury Investment Income	**1,476**	**2,700**
Treasury Income Budget	**1,220**	**2,441**
Surplus	**256**	**259**

Appendix 1C – Minimum Revenue Provision (MRP) Statement

1 Policy Statement

1.1 Where the Council 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 Council to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

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

1.3 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

1.4 For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £9,113k.

1.5 For capital expenditure on operational assets incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset by either of the following methods:

a) In equal instalments

b) Using an annuity basis

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

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

1.8 For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

1.9 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

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

a) In equal instalments

b) Using an annuity basis

c) Weighted to reflect projected net income cash flows over the expected life of investment (up to 50 years)

1.11 MRP will be charged from the start of the financial year after the expenditure is incurred, meaning capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.

Risk Management Update

Strategic Director: *Kirsty Larkins, Director (Strategy and Commissioning)*
Lead Officer: *Brendan Downes, Lead Specialist (People Performance and Change)*
Contact Details: *brendan.downes@southsomerset.gov.uk or 01935 462076*

Purpose of the Report

1. This report is provided to inform committee of the status of the Consolidated Risk Register (Strategic and Category Risks) as at 30 July 2020, as well as to provide assurance on risk management arrangements across the authority.

Public Interest

2. Risk can be described as "The effect of uncertainty on objectives, often described by an event or a change in circumstances"

3. Risk Management can be described as the coordinated activities to direct and control an organisation with regard to risk.

4. South Somerset District Council looks to ensure effective risk management arrangements are in place to help the Council maximise its opportunities and minimise the impact of the risks it faces. Effective risk management should improve our ability to deliver key priorities, improve outcomes for residents, maintain good governance and minimise any damage to its reputation

Recommendations

5. That Audit committee:

   a) Note and comment on the risk management arrangements in place
   b) Note the completion of the quarterly update to SSDC risk registers (completed 31 July 2020), as summarised in the confidential appendix (Appendix 1).

Background

6. The Council's risk management process consists of a series of co-ordinated activities, applicable to all levels and activities of the Council. This involves:

   - Establishing context - Understanding of key outcomes and objectives for the organisation, directorate or service being assessed.
   - Risk identification - Risks to the organisation are identified and described
   - Risk analysis and evaluation - Scoring and prioritising the risks based on likelihood and impact in order to determine appropriate response
   - Risk treatment - Deciding what to do about the risks
   - Resourcing controls and action planning - Putting controls into place and planning actions to reduce risks to an acceptable level within an agreed time frame.
   - Risk escalation - The escalation or downgrading of risks between the strategic, directorate and departmental levels of the Council.
   - Risk reporting and monitoring - Risks change and so need regular monitoring and reporting to appropriate stakeholders.

7. In November 2019 the Council's approach to risk management was reviewed with the objective to ensure it is operating efficiently, effectively and supports the new council approach to achievement of its objectives.

8. The risk approach is based on the organisational ethos of "One Team". This is intended to create a risk management approach that looks at risk holistically across the organisation, rather than focussing on performance risks in individual functional units which can lead to silo thinking and inefficiencies.

9. The SSDC risk approach is now based on a framework of risk registers, which can be summarised as:
   - Strategic Risk register which records the significant long term risks facing the authority
   - Category registers which will capture corporate risks as well as provide oversight of all project risks coded to a specific category
   - "Project" risk registers, developed for projects, initiatives and significant areas of work

10. The principles of how risks are managed in the authority are described in the risk management policy issued February 2020.

11. As part of these arrangements Audit Committee are invited to:
    - Review and monitor the effectiveness of risk management arrangements
    - Obtains assurance on the effectiveness of risk and internal control arrangements
    - Review the Strategic Risk Register on a regular basis

12. A Risk Summary is provided in appendix 1 (confidential) to provide committee with an overview of the content of the strategic and category risk registers. This shows both inherent and residual risk scores. This summary also illustrates any changes in the SSDC risk profile occurring between 30th April 2020 and 30th July 2020 as recorded in the risk registers.

Summary of risk position at 31 July 2020 and points of note

13. The previously agreed approach to maintain and update the risk register through review with risk category leads has been maintained, with the quarterly assessment and reviews with risk owners and category leads taking place between 14 - 27th July. The Risk Summary provided in the confidential appendix (Appendix 1) reflects the outcome of this update.

14. Any changes in the councils risk profile compared to the previous quarter are illustrated in the Risk Summary.

Key points to note with regards to content:

15. The consolidated risk register includes the strategic and category risk registers as developed for:
    - Finance
    - Staffing and capacity
    - Health and safety
    - Reputation
    - Project and programme delivery
    - Delivery of services
    - Governance and legal

16. In addition specific project risk registers related to significant change projects are also included in the published register. These include:
    - Future state
    - Digital strategy
    - COVID 19

17. Project risk registers related to the regeneration projects and Stronger Somerset are not included in this consolidated risk register as they have their own project boards and governance structure where these project risks are reviewed.

18. The risk register for COVID 19 was introduced in response to the pandemic and was developed initially by officers with input from external partner risk registers. This draft was then developed further through input from the SLT/LMT group in a COVID risk workshop. This risk register is now being reviewed and updated fortnightly by the GOLD team.

    A specific review of this COVID register has been undertaken with risk category leads in order to avoid duplication of risks due to the COVID risk register being developed independently. On that basis, a small number of "duplicate" risks have now been consolidated.

19. A project register for Future State is still being maintained, but decision is pending to confirm the migration or closure of the Future State Risks. This will be informed by the recommendations of the Transformation close out report.

20. New project risks have been proposed relating to delivery of the Digital Strategy which will be developed further with the Digital Team.

21. A collective review and update of the H&S risks is planned for the Health and Safety Steering Group meeting scheduled for the 25th August, to address audit findings detailed below in item 9

22. **Publication**. The consolidated and category risk registers are now published and updated quarterly on the Portal, to support transparency on risk and risk management, and to encourage active review by officers.

23. **Audit findings.** In July 2020 a SWAP Risk audit was conducted with a number of priority 3 recommendations being identified. The improvement actions proposed and current status as at 8th October 2020 are listed below.

	Issue	Proposed action	By	Status
1	Positive impacts from risks not captured	• Develop an Opportunity Scoring matrix • Increase focus on Opportunities in future reviews. • Review scope to integrate Risk Management process to lessons learned and audit processes	Oct 20 Oct 20 Nov 20	Open In Progress Open
2	Risks are under scored on the risk matrix	• Rescoring of H&S risks with H&S steering group • Increase challenge to risk scoring with risk owners • Source risk training for officers.	Sept 20 Ongoing Nov 20	Closed - Started

3	Inadequate / poorly defined controls	• Review all open risk actions, confirm ownership and closure dates • Existing risk controls to be reviewed with risk owners to validate actual status	Oct 20 Nov 20	In Progress In Progress
4	Risk being missed	• Provide greater clarity on responsibilities of risk owners, category leads and management team in order to enable effect risk management	Nov 20	Open

24. **Process improvements**. Additional support to the risk management process has now been established. This has led to significant process improvements in the recording and review of risks. In summary these include:

- Each risk owner now has direct access to the shared Risk Register to review and edit the risks. Appropriate version control in place.
- Improved guidance has been made available to risk owners and category risk leads on their responsibilities.
- Greater clarity on deadlines for reviews provided to maintain the reporting structure set out, to ensure that the approved risk register can then be presented to the Audit Committee at the next appropriate meeting.

Audit Committee's observations and comments to the risk arrangements and Risk Summary are welcomed.

Financial Implications

None.

Council Plan Implications

Effective risk management will help to ensure that the Council maximises its opportunities and minimises the impact of the risks it faces, thereby improving our ability to deliver key priorities, improve outcomes for residents, maintain good governance and minimise any damage to its reputation.

Carbon Emissions and Climate Change Implications

None.

Equality and Diversity Implications

None.

Background Papers

None

Please note:

The Press and Public will be excluded from the meeting if members wish to discuss the confidential appendix in detail, Audit Committee will consider this in Closed Session by virtue of the Local Government Act 1972, Schedule 12A under paragraph 3 (or for any other reason as stated in the Audit Committee agenda):

“Information relating to the financial or business affairs of any particular person (including the authority holding that information).”

It is considered that the public interest in maintaining the exemption from the Access to Information Rules outweighs the public interest in disclosing the information.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted