SWT Audit, Governance and Standards Committee

Monday, 13th January, 2020, 6.15 pm

The John Meikle Room - The Deane House

Somerset West and Taunton

Members: **Sue Buller (Chair), Lee Baker (Vice-Chair), Simon Coles, Dixie Darch, Hugh Davies, Caroline Ellis, Janet Lloyd, Steven Pugsley, Vivienne Stock-Williams, Terry Venner, Sarah Wakefield, Mrs Anne Elder and Bryn Wilson**

Agenda

1. Apologies

To receive any apologies for absence.

2. Minutes of the previous meeting of the Audit, Governance and Standards Committee (Pages 7 - 10)

To approve the minutes of the previous meeting of the Committee.

3. Declarations of Interest

To receive and note any declarations of disclosable pecuniary or prejudicial or personal interests in respect of any matters included on the agenda for consideration at this meeting.

(The personal interests of Councillors and Clerks of Somerset County Council, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)

4. Public Participation

The Chair to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

5. Audit, Governance and Standards Committee Action Plan (Pages 11 - 12)

To update the Audit, Governance and Standards Committee on the progress of resolutions and recommendations from previous meetings of the Committee.

6. Audit, Governance and Standards Committee Forward Plan (Pages 13 - 14)

To receive items and review the Forward Plan.

7. Grant Thornton External Audit - TDBC Annual Audit Letter (Pages 15 - 32)

The report introduces the Annual Audit Letter from Grant Thornton, which summarises the key findings arising from their work carried out for Taunton Deane Borough Council for the year ended 31 March 2019.

8. Grant Thornton External Audit - Progress Report (Pages 33 - 48)

The report provides the Audit, Governance and Standards Committee with a progress update regarding the work of the external auditors, Grant Thornton, together with information relating to emerging issues which may be relevant to the Council.

9. SWAP Internal Audit - Progress Report 2018/19 (Pages 49 - 70)

The 2019-20 Annual Audit Plan is to provide independent and objective assurance on SWT Internal Control Environment. This work will support the Annual Governance Statement.

10. 6-Month Review of Treasury Management Activity (Pages 71 - 86)

The purpose of the report is to provide Members with an update on the Treasury Management activity of the Council for the first six months of 2019/20. It focuses on a review of the Council's borrowing and investment activities.

11. Draft Capital, Investment and Treasury Strategies 2020/21 Progress Update (Pages 87 - 158)

The purpose of this report is to inform members of the recommended strategy in relation to capital expenditure and financing, investments and treasury management activities.

12. Risk Management Strategy (Pages 159 - 174)

The purpose of the report is to present the Committee with the Risk and Opportunity Management Strategy for approval.

13. Summary of Overdue Level 4/5 Actions

This report will be a verbal update on any overdue high priority actions that the Monitoring Officer needs to make the Committee aware of.

14. Access to Information - Exclusion of the Press and Public

During discussion of the following item it may be necessary to pass the following resolution to exclude the press and public having reflected on Article 13 13.02(e) (a presumption in favour of openness) of the Constitution. This decision may be required because consideration of this matter in public may disclose information falling within one of the descriptions of exempt information in Schedule 12A to the Local Government Act. The Committee will need to decide whether, in all the circumstances of the case, the public interest in maintaining the exemption, outweighs the public interest in disclosing the information.

Recommend that under Section 100A(4) of the Local Government Act 1972 the public be excluded from the next item of business on the ground that it involved the likely disclosure of exempt information as defined in paragraph 1 respectively of Part 1 of Schedule 12A of the Act, namely information relating to any individual.

15. Monitoring Officer Update

This report will be a verbal update on any items that the Monitoring Officer needs to make the Committee aware of.

JAMES HASSETT
CHIEF EXECUTIVE

Please note that this meeting will be recorded. At the start of the meeting the Chair will confirm if all or part of the meeting is being recorded. You should be aware that the Council is a Data Controller under the Data Protection Act 2018. Data collected during the recording will be retained in accordance with the Council's policy. Therefore unless you are advised otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact the officer as detailed above.

Members of the public are welcome to attend the meeting and listen to the discussions. There is time set aside at the beginning of most meetings to allow the public to ask questions. Speaking under "Public Question Time" is limited to 3 minutes per person in an overall period of 15 minutes. The Committee Administrator will keep a close watch on the time and the Chair will be responsible for ensuring the time permitted does not overrun. The speaker will be allowed to address the Committee once only and will not be allowed to participate further in any debate. Except at meetings of Full Council, where public participation will be restricted to Public Question Time only, if a member of the public wishes to address the Committee on any matter appearing on the agenda, the Chair will normally permit this to occur when that item is reached and before the Councillors begin to debate the item.

If an item on the agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group. These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room. Full Council, Executive, and Committee agendas, reports and minutes are available on our website: www.somersetwestandtaunton.gov.uk

The meeting room, including the Council Chamber at The Deane House are on the first floor and are fully accessible. Lift access to The John Meikle Room, is available from the main ground floor entrance at The Deane House. The Council Chamber at West Somerset House is on the ground floor and is fully accessible via a public entrance door. Toilet facilities, with wheelchair access, are available across both locations. An induction loop operates at both The Deane House and West Somerset House to enhance sound for anyone wearing a hearing aid or using a transmitter. For further information about the meeting, please contact the Governance and Democracy Team via email: governance@somersetwestandtaunton.gov.uk

If you would like an agenda, a report or the minutes of a meeting translated into another language or into Braille, large print, audio tape or CD, please email: governance@somersetwestandtaunton.gov.uk

SWT Audit, Governance and Standards Committee - 11 November 2019

Present: Councillors Lee Baker, Simon Coles, Dixie Darch, Hugh Davies, Caroline Ellis, Janet Lloyd, Steven Pugsley, Vivienne Stock-Williams, Sarah Wakefield, Mrs Anne Elder and Bryn Wilson

Emily Collacott, Geri Daly, Paul Fitzgerald and Clare Rendell

(The meeting commenced at 6.15 pm)

43. **Apologies**

Apologies were received from Councillors S Buller and T Venner.

44. **Minutes of the previous meeting of the Audit, Governance and Standards Committee**

(Minutes of the meeting of the Audit, Governance and Standards Committee held on 25 September 2019 circulated with the agenda)

Resolved that the minutes of the Audit, Governance and Standards Committee held on 25 September 2019 be confirmed as a correct record.

45. **Declarations of Interest**

Members present at the meeting declared the following personal interests in their capacity as a Councillor or Clerk of a County, Town or Parish Council or any other Local Authority:-

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr L Baker	All Items	Cheddon Fitzpaine & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr H Davies	All Items	SCC	Personal	Spoke and Voted
Cllr C Ellis	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr J Lloyd	All Items	Wellington & Sampford Arundel	Personal	Spoke and Voted
Cllr F Smith-Roberts	All Items	Taunton Charter Trustee	Personal	None
Cllr V Stock-Williams	All Items	Wellington	Personal	Spoke and Voted

Councillor L Baker further declared a personal interest as an employee of Lloyds Banking Group.

46. **Public Participation**

No members of the public had requested to speak on any item on the agenda.

47. **Grant Thornton External Audit - Audit Findings Report**

During the discussion, the following points were made:-

- The External Auditor advised that the objection was still ongoing but that it had not impacted on the formal opinion given on the Statement of Accounts.
- Councillors requested clarification on the term ‘recharge’.
- Councillors queried whether the figures quoted for redundancies included the officers who had worked at the Depot.
  Yes they did.
- Councillors requested clarification on the objection and whether the response would be published.
  The External Auditor confirmed that the response was shared between the Auditor and the Objector and that the Audit, Governance and Standards Committee would not normally get sight of it. However, dependant on the results, some of the outcomes might lead to public actions.
- Councillors queried if the Objector was not satisfied with the outcome, could they take their complaint to the Local Government Ombudsman?
  Yes they could.
- Councillors queried the section in the report on Land Valuation.
  The Chartered Institute of Public Finance and Accountancy code required assets to be valued every five years. However the External Auditors recommended carrying out valuations more frequently.
- Councillors queried the timescale for the objection.
  The External Auditor advised there was a lot of work to be undertaken but hoped it would not take too long, however, could not give a completion date at this point.
- Councillors queried what costings would have an impact on the audit opinion.
  The arrangements for 2018/19 were adequate and they would be monitored and if found to be out of proportion, Councillors would be kept up to date.
- Councillors queried whether they received updates on the budget.
  The Section 151 Officer confirmed that both the Scrutiny and Audit, Governance and Standards Committees received updates. The budget was also reported to the Senior Management Team on a regular basis.
- Councillors queried whether the Audit, Governance and Standards Committee were able to have sight of the accounts to conduct their own checks.
  The Council operated a system known as reporting by exception. An explanation on the process was given to the Committee.
- Councillors queried why 2017 was an expensive audit year.

The External Auditor advised that it was the final year of the old contract for both Councils and that firms had to re-tender for the new contract. The PSAA were responsible for setting the fees.

Resolved that the Audit, Governance and Standards Committee noted:-
1) The Audit Findings Report in respect of TDBC's Statement of Accounts 2018/19; and
2) The Auditor's Opinion in relation to the Statement of Accounts and Value for Money Conclusion.

48. **Approval of Taunton Deane Borough Council Statement of Accounts**

During the discussion, the following points were raised:-
- The Section 151 Officer thanked the External Auditor for their work and opinion on the Statement of Accounts.
- Concern was raised on the objection submitted by a member of the public and the extra cost to the Council.
  The External Auditor advised that there would be an additional charge and that it would be agreed by the Public Sector Audit Appointments.
- Councillors queried the Non Domestic Rates appeal submitted by the NHS.
  Officers advised that the legal process was still ongoing and that they had to apply an element of judgement, but had set money aside for that. Clarification was given on contingent liability and probable liability.
- The Section 151 Officer requested approval from the Committee that the Vice-Chair signed the Statement of Accounts in the absence of the Chair, which was unanimously agreed.

Resolved that the Audit, Governance and Standards Committee:-
1) Noted the Auditor's unqualified opinion on the Statement of Accounts;
2) Approved the 2018/19 Statement of Accounts as attached to the report;
3) Endorsed the Vice-Chair (in the Chair) of the Committee signed the Statement of Accounts; and
4) Endorsed the Vice-Chair (in the Chair) of the Committee signed the management letter of representation in respect of the financial statements for the year ended 31 March 2019.

(The Meeting ended at 7.30 pm)

SWT Audit, Governance and Standards Committee Action Plan

Date/Minute Number	Action Required	Action Taken
25 September 2019 SWAP Internal Audit – Progress Update 2019/20	Councillors requested that an update on the Bereavement Service Business Plan be brought to the meeting scheduled for 11 December 2019.	The update would be added to the next report.
25 September 2019 SWAP Internal Audit – Progress Update 2019/20	Councillors requested that an update on the Bereavement Service Supplier Resilience be brought to the meeting scheduled for 11 December 2019.	The update would be added to the next report. .

SWT Audit, Governance and Standards Committee Forward Plan 2019/20

Meeting Date	**Report Deadline**	**Draft Agenda Items**	**Lead Officer**
26 June 2019	17 June 2019	Grant Thornton External Audit - Audit Fees Grant Thornton External Audit - Audit Update SWAP Internal Audit – Audit Plan 2018/19 Outturn 2018/19 Treasury Management Outturn Report	Grant Thornton Grant Thornton Alastair Woodland Steve Plenty
31 July 2019	22 July 2019	Annual Governance Statement 2018/19 Approval of the Statement of Accounts Grant Thornton External Audit – Audit Findings Report Assessment of Going Concern Status Fire Risk Assessment	Amy Tregellas Paul Fitzgerald Geri Daly/Aditi Chandramouli Paul Fitzgerald Simon Lewis/James Barrah
25 September 2019	16 September 2019	Grant Thornton External Audit – Annual Audit Letter 2018/19 Grant Thornton External Audit – Progress & Update Report SWAP Internal Audit – Progress Update 2019/20 Annual Governance Statement Action Plan Update Equalities Action Plan and Policy Local Government Ombudsman Summary of Complaints 2018/19 Monitoring Officer Update	Geri Daly/Aditi Chandramouli Geri Daly/Aditi Chandramouli Alastair Woodland Amy Tregellas Paul Harding Amy Tregellas Amy Tregellas
Special Meeting 11 November 2019		Approval of TDBC Statement of Accounts Annual Audit Letter for TDBC	Paul Fitzgerald Paul Fitzgerald
~~11 December 2019~~ NOW CHANGED TO 13 JANUARY 2020	~~2 December 2019~~ NOW 2 January 2020	Grant Thornton External Audit – TDBC Annual Audit Letter Grant Thornton External Audit – Progress Report SWAP Internal Audit – Progress Report 2018/19 6-Month Review of Treasury Management Activity Draft Capital, Investment and Treasury Strategies 2020/21 Progress Update Update on Fire Risk Assessments Risk Management Strategy Summary of Overdue Level 4/5 Actions Monitoring Officer Update	Geri Daly Geri Daly Alastair Woodland Steve Plenty Paul Fitzgerald James Barrah Amy Tregellas Amy Tregellas Amy Tregellas
11 March 2020	2 March 2020	Grant Thornton External Audit – Audit Update Grant Thornton External Audit – Audit Plan SWAP Internal Audit – Progress Report 2019/20 SWAP Internal Audit – Audit Plan & Charter 2020-21 Corporate Risk Management Update Review of Effectiveness of Internal Audit 2019/20 Annual Governance Statement 2019/20 Summary of Overdue Level 4/5 Actions Monitoring Officer Update	Geri Daly Geri Daly Alastair Woodland Alastair Woodland Amy Tregellas Amy Tregellas Amy Tregellas Amy Tregellas Amy Tregellas
June 2020		Grant Thornton External Audit - Audit Fees	Geri Daly/Aditi Chandramouli

		Grant Thornton External Audit - Audit Update SWAP Internal Audit – Audit Plan 2019/20 Outturn SWAP Internal Audit – Annual Audit Opinion 2019/20 Treasury Management Outturn Report Annual Governance Statement 2018/19 Monitoring Officer Update	Geri Daly/Aditi Chandramouli Alastair Woodland Alastair Woodland Steve Plenty Amy Tregellas Amy Tregellas

Report Number: SWT 1/20

Somerset West and Taunton Council

Audit Governance and Standards Committee – 13 January 2020

Taunton Deane Borough Council Annual Audit Letter 2018/19

This matter is the responsibility of Executive Councillor Henley

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

1 Executive Summary

1.1 This brief cover report introduces the Annual Audit Letter from Grant Thornton, which summarises the key findings arising from their work carried out for Taunton Deane Borough Council for the year ended 31 March 2019.

2 Recommendations

2.1 The Committee considers and notes the contents of the Annual Audit Letter.

3 Background

3.1 Taunton Deane Borough Council's external audit function is undertaken by Grant Thornton. The external auditor, as part of their work, provide an Annual Audit Letter which summarises their findings and updates regarding the actual audit fees. This relates to the final year of operation for the Council with its functions and responsibilities transferring to Somerset West and Taunton Council on 1 April 2019.

3.2 The Annual Audit Letter is intended to provide a commentary on the results of the auditor's work to the Council and external stakeholders, and to highlight issues that they wish to draw to the attention of the public. Further to the final Audit Findings Report, presented to this Committee on 11 November 2019, the Annual Audit Letter confirms that the Grant Thornton have issued an unqualified opinion in respect of Taunton Deane Borough Council's accounts for 2018/19 and in respect of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.

4 Finance / Resource Implications

4.1 The main audit fees proposed to be charged for 2018/19 total £43,484. This is £4,500 higher than initially set, with Grant Thornton proposing to include additional fees due to changes in scope of work. This is summarised on page 14 of their Letter, and is subject to agreement by Public Sector Auditor Appointments (PSAA) – the body that procured the audit services for the Council.

4.2 The auditor has yet to provide a conclusion to the objection to the accounts raised by a member of the public. Further fees, not yet quantified, will be charged by Grant Thornton in respect of the additional work undertaken assessing the objection. This will be reported to the Committee when known.

5 Legal Implications

5.1 The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities.

Reporting Frequency: Annual

Contact Officer

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Grant Thornton

The Annual Audit Letter for Taunton Deane Borough Council

Year ended 31 March 2019

09 December 2019

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Taunton Deane Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 31 July 2019

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1.6m, which is 1.7% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 15 November 2019 We included an emphasis of matter paragraph in our report on the Council's financial statements which explains the impact of the planned dissolution of the Council and the transfer of its services to Somerset West and Taunton Council. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 15 November 2019
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit, Governance and Standards Committee separately.

Executive Summary

Certificate	We are unable to certify that we have completed the audit of the financial statements of Taunton Deane Borough Council until we have completed our consideration of matters brought to our attention. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
December 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1.6m, which is 1.7**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £26k

We set a lower threshold of £80k, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements, the Narrative Report, and the Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement	As part of our audit work we have: • Evaluated the business processes and design effectiveness of management controls over journals • Analysed the journals listing and determined the criteria for selecting high risk unusual journals • Undertaken an exercise to ensure the completeness of the journals listing • Undertaken risk based scoring, and testing of unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • Gained an understanding of the accounting estimates and critical judgments made by management and considering their reasonableness • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions	**Our audit work has not identified any issues in respect of management override of controls.**
Accounting for redundancies Due to the significant transformation project being undertaken this year, it has been identified that there will be significant redundancies incurred. As all employees are employed by Taunton Deane, the redundancies will be recharged to West Somerset at an appropriate percentage for each individual. This presents a risk in terms of the calculation of the redundancies and the disclosure of them in the accounts. Therefore, we have highlighted this as a risk to the audit.	As part of our audit work we have: • Reviewed the processes and evaluated the controls around accounting for redundancy payments • Reviewed a sample of redundancy costs and pension strain payments to check the calculation of and accounting for the redundancy costs, to ensure that amounts are accurate, and the basis for re-charging these between Councils is appropriate • Reviewed the policies and procedures around redundancy costs • Reviewed the disclosures of redundancy costs in the financial statements to ensure that they have been correctly included	**Our audit work has not identified any issues in respect of the accuracy of redundancy payments**

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Income from West Somerset Recharges Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For Taunton Deane Borough Council, we have concluded that the greatest risk of material misstatement relates to the West Somerset recharge income. This is because the recharges are based on estimates of the percentage of resource used for each Council, and this is more susceptible to error or manipulation than other streams of income. We have therefore identified the occurrence and accuracy of West Somerset Recharge income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	As part of our audit work we have: • Evaluated the Council's accounting policy for recognition of income from the recharges for appropriateness • Gained an understanding of the Authority's system and business processes for accounting for income from West Somerset recharges • Evaluated the design and effectiveness of the controls around recharges, by undertaking a walkthrough of associated controls • Agreed all income for the year to invoices raised and undertook a reconciliation between the general ledger and the bank	**Our audit work in this area has not identified any issues in respect of income from West Somerset recharges**

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Authority revalues its land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuations were carried out; • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • Tested a sample of revaluations made during the year to see if they have been input correctly into the Authority's asset register • Evaluated the assumptions made by management for those assets nor revalued during the year and how management has satisfied themselves that these are not materially different to the current value at year end	We identified a material reclassification from land and buildings to investment properties. We challenged this reclassification in order to gain an understanding of the reasons and assumptions behind this re-classification. We identified that the Council appropriately took factors arising in the 2018-19 financial year into consideration in re-classifying this property **Our audit work has not identified any issues in respect of the valuation of land and buildings**

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of the pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	As part of our audit work we have: • Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report; and • Obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of the membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	**Our audit work has not identified any issues in respect of the valuation of the pension fund net liability**

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council's financial statements on 15 November 2019.

Preparation of the financial statements
The Council presented us with draft financial statements in accordance with the national deadline.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council’s Audit, Governance and Standards Committee on 11 November 2019.

In addition to the key audit risks reported above, we identified that bank reconciliations were not undertaken for one of the Council’s bank accounts, and that a proportion of Members declaration of interests were not received by September 2019. We recommended that the Council undertake regular bank reconciliations and that the process for declaring interests is appropriately followed

Annual Governance Statement and Narrative Report
We are required to review the Council’s Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)
We carried out work on the Council’s Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold on 19 November 2019

Certificate of closure of the audit
We are unable to certify that we have completed the audit of the financial statements of Taunton Deane Borough Council until we have completed our consideration of matters brought to our attention. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in November 2019, we agreed a recommendation to address our findings:

- The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Medium Term Financial position including Transformation We reported in our audit plan that the Council continues to face financial pressures with the 4 year settlement for 2016/17 to 2019/20 resulting in a significant grant cut . The new Somerset West and Taunton Council has set a balanced budget for the 2019/20 financial year, with an indicative cumulative surplus of £787k due to be achieved by the end of 2023/24. However the Councils' annual budget report highlights that future funding is uncertain. The MTFP position includes the projected savings arising through the implementation of the Transformation Business Case and formation of the new Council. Without these savings, the forecasted budget gap would be a deficit of £2.057m per year by 2023/24.	• We reviewed the Council's Medium Term Financial Plan, including the assumptions and savings included within the modelling. We also considered the work being done by the Council to identify the additional savings that it needs to make over this period. The Council's outturn for 2018/19 was £251k below budget, which was transferred to general reserves. At 31 March 2019 the Council has reserves of £5.029m, with £4.048m being in earmarked reserves and £981k in the general reserve. • The Council set a balanced budget for the 2019/20 financial year, with a harmonised Council tax rate. This results in a Band D increase of £5 on the Taunton Deane rate, and a £2.32 increase on the West Somerset rate. Budgeted savings within this were £3.5m as a result of the transformation programme. It was identified in December 2018 that the overall costs for transformation are now estimated to exceed the original High Level Business Case estimates by £2,387,000, for which West Somerset's share is £1,880,000, however the revised Business Case increases the savings from £3,100,000 to £3,500,000 per annum. The Council should continue to monitor the transformation programme finances as any further increases could impact the medium term financial planning • The additional costs mostly come from the average cost of redundancy not from higher numbers of redundancy. In 2016, the Council predicted the former to be £25,000 when in reality it has proven to be £34,000. This can be for a range of reasons the most likely being the age profile and length of service of the people involved. On reflection The Council states that they should have included a range for the redundancy estimate stress testing the Business Case to the pay back of three years which they remain within. • The current Somerset West and Taunton MTFP runs to 2023/24 and is based on detailed modelling assumptions. These include inflation, pay and contract increases as well as anticipated reductions in grant funding, including the four year funding settlement accepted by the Council. These assumptions have been reviewed and appear to be reasonable based on the evidence and information currently available. The MTFP is updated regularly as information on grant settlements becomes available, outcomes from savings strategy are identified and any new cost pressures identified.	**Auditor view** Whilst significant pressures remain we conclude that, overall, the Council has demonstrated it has appropriate arrangements in place for sustainable resource deployment. The Council should continue to monitor the transformation costs finances as any further increases could impact the medium term financial planning **Management response** The Council has robust budgeting arrangements in place and recognises a number of financial planning risks. Management views the realisation of benefits from transformation as critical to its sustainable financial position.

Value for Money conclusion (continued)

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Transformation programme and service delivery We reported in our audit plan that we would undertake procedures to understand the Council's mechanisms for identifying, monitoring and reporting any operational service delivery issues arising from the transformation programme, especially when the programme reaches its peak in the last quarter of 2018-19. As part of our value for money risk assessment, we have considered the high level business case, and identified that given the level of redundancies and other service disruption, we will consider the detail behind the monitoring of the transformation programme, and identify whether appropriate governance policies and procedures have been followed throughout.	• In line with agreed reporting arrangements for programme governance, an update report was taken to the Shadow Council's Scrutiny Committee on the 26th of November, and then to Full Council for both Councils on 11th and 12th December 2018. The report showed that cost is off target, and resource is at risk. The Councils requested an update to the budget for the transformation programme of £2.387m, of which Taunton Deane's share is £1.88m, and West Somerset's share is £507k.The updated Business Case provided a payback period, at 2.7 years, which is below the three year good practice benchmark the Council has used for this programme. The additional budget was approved by members. • A second progress report on the transformation programme was taken to Shadow Scrutiny Committee on 14th January 2019. This agenda item highlighted several queries and concerns from members. Members suggested that officers needed to manage the customer's expectations and distribute communications properly and in a timely manner, and the Programme Sponsor agreed and they had already started work on communications. Concern was raised in the 'dip' in service levels during the delivery of the Transformation Project. The Programme Director confirmed that was to be expected and that Members had been advised that service levels might be reduced as a result of the recruitment process. These points, included within the public minutes show a reasonable level of scrutiny with regards to the transformation programme, and also reflects the level of engagement and discussion around salient points of the programme. • We have held discussions with officers at the Council responsible for managing service delivery, and it was identified that whilst overall the main operational elements of the transformation had been delivered in accordance with the timeline, there were some lessons learnt for both Councils as part of the programme, the main lesson of which involves staggering implementation. • Overall, we have identified that update reports have been taken to Scrutiny meetings providing members a chance to participate and add value to the transformation programme as a whole. Informal internal monitoring also shows that detailed logs were kept of the issues and blockers with regards to operational service delivery, and these were monitored and updated regularly. It was also identified that an external body was hired to provide experienced consultancy services to aid the transformation programme, which shows the Council's approach to the transformation programme took into account measures to ensure a smooth transition from two Councils to one.	**Auditor view** Overall we are satisfied that the Council governance procedures with regards to the transformation programme are robust. Some issues with service delivery were identified, as communicated to members, and the Council have identified lessons to be learnt from this going forward. **Management response** The Council has managed a lengthy period of significant and rapid change, and will learn from successes and challenges faced

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	17 December 2018
Audit Findings Report	31 October 2019
Annual Audit Letter	20 November 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	38,984	38,984	50,629
Additional Audit Fee		4,500	
Total fees	**38,984**	**43,484**	**50,629**

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefit Grant Certification	17,898
- Pooling of Capital Receipts	TBC
Non-Audit related services	Nil
- None	

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £38,984 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
Total		4,500

Fee variations are subject to PSAA approval.

grantthornton.co.uk

Report Number: SWT 2/20

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 13 January 2020

External Audit – Progress Report and Update

This matter is the responsibility of Executive Councillor Henley

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

1 **Executive Summary**

1.1 The attached report provides the Audit, Governance and Standards Committee with a progress update regarding the work of the external auditors, Grant Thornton, together with information relating to emerging issues which may be relevant to the Council.

2 Recommendations

2.1 Members are requested to consider and note the report.

3 **Risk Assessment**

3.1 The details of any specific risks are contained within the report.

4 **Background and Full details of the Report**

4.1 The Council's external audit function is undertaken by Grant Thornton. The external auditors, as part of their work, provide regular updates to Members via the Audit, Governance and Standards Committee together with updates in relation to emerging national issues, which may be of relevance to the Council. These are detailed in the attached report.

5 Links to Corporate Strategy

5.1 There is no direct contribution to the Corporate Priorities.

6 Finance / Resource Implications

6.1 This is an update report only and there are no specific financial implications.

7 Legal Implications

7.1 The Council has a statutory duty to produce financial statements.

Democratic Path:

- **Scrutiny / Corporate Governance or Audit Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

Reporting Frequency: Twice Yearly

List of Appendices

Appendix A	GT Audit Progress Report and Sector Update

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Grant Thornton
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Audit Progress Report and Sector Update

Somerset West and Taunton Council
Year ending 31 March 2020

02 January 2020

Contents

Introduction

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Page 35

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This paper provides the Audit, Governance and Standards 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, Governance and Standards 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 January 2020

Financial Statements Audit

We issued our opinion on Taunton Deane's 2018/19 Statement of Accounts on 15 November 2019, and West Somerset's 2018/19 Statement of Accounts on 02 August 2019. We completed our work on your Whole of Government Accounts (WGA) submissions. We are yet to issue our certificate due to completion of work on matters bought to our attention

We will begin our planning for the 2019/20 audit in January and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will begin our interim audit in in early 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Updated understanding of the merger of Taunton Deane and West Somerset Councils on 1 April 2019, and the impact on the general ledger opening balances
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report our work in the Audit Findings Report and provide you with regular updates on the progress of the audit

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 where we will provide our Value For Money Conclusion.

The NAO is consulting on a new Code of Audit Practice from 2020 which proposes to make significant changes to Value for Money work. Please see page 10 for more details.

Progress at January 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. The certification work for the 2018/19 claims for both Taunton Deane and West Somerset Councils was completed on 29 November, in advance of the 30 November deadline. We have reported our findings to the Audit, Governance and Committee further on in this report on Page 6

We will also be completing the certification of the pooling of housing capital receipts claim in January 2020.

Meetings

We will meet with Finance Officers in January as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We will also meet with your Chief Executive in January 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 have been invited to our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are 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 are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit, Governance and Standards Committee.

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

Certification of claims and returns

We completed the certification of Housing Benefit claims for Taunton Deane and West Somerset Councils on 29 November 2019. Our findings are set out below

Taunton Deane Borough Council

The claim was amended and qualified, and the following errors were noted in our report:

- Rent allowances – An error was identified in our initial testing in relation to rent liability. The Council tested 40 additional cases, and we reperformed a sample. This resulted in an extrapolated error value of £2,207.
- Non-HRA Rent rebates – An error was identified in our initial testing where there was no claim form, tenancy agreement or payslips to support a claim. The Council tested all claims in relation to Non-HRA Rent rebates, and we re-performed a sample. A claim amendment of £725 was made.
- Non-HRA Rent rebates – An error was identified in the prior year where a claim was classified as being a Non-HRA Rent Rebate, but should actually be classified as a HRA Rent Rebate. In light of this prior year issue, the audit team reviewed the entire population of Non-HRA Rent Rebates in 18-19, and a claim amendment of £2,539 was made.

West Somerset District Council

The claim was amended, and the following errors were noted in our report:

- Non-HRA rent rebates – An error was identified in our initial testing in relation to classification of overpayments. The Council tested all claims with eligible overpayments, and a claim amendment of £133 was made
- Modified Schemes – An error was identified in our initial testing where claims were classified as receiving modified schemes subsidy, but the claimants did not meet the eligibility criteria. The Council tested all relevant claims, and a claim amendment of £656 was made.
- Rent allowances – An error was identified in the prior year where a claim had been identified as not having a rent officer referral. In light of this prior year issue, the audit team reviewed the entire population of Cell 099, and a claim amendment of £837 was made.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Audit Findings Report The Audit Findings Report was reported to the July and November Audit, Governance and Standards Committee.	August and November 2019	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	August and November 2019	Complete
Annual Audit Letter This letter communicates the key issues arising from our work.	August and December 2019	Complete

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	June 2019	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit, Governance and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	March 2020	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the Audit, Governance and Standards Committee.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2020	Not yet due

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, Governance and Standards 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

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was "working towards improving its approach to local government oversight and support", Brokenshire promised.

"A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy," he said.

"There are potentially far-reaching consequences when audits aren't carried out properly and fail to detect significant problems."

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still "fit for purpose".

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: "Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

"Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure."

He added: "This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole."

Ministry of Housing, Communities & Local Government

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was "open minded", but believed the Audit Commission was "of its time".

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts "must be of the highest level of transparency and quality", the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an "expectation gap" between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

1) audit recommendations are effective in helping councils to improve financial management
2) auditors are using their reporting powers appropriately
3) councils are responding to auditors appropriately
4) Financial savings from local audit reforms have been realised
5) There has been an increase in audit providers
6) Auditors are properly responding to questions or objections by local taxpayers
7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

The FRC notes that, "In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty." These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote "More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions." Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

FRC Financial Reporting Council

IFRS 16 Leases

The FRC letter notes "IFRS 16 is effective for periods beginning on or after 1 January 2019. We recently conducted a thematic review looking at how companies reported on their adoption of the new standard in their June 2019 interim accounts. In advance of our detailed findings which will be published shortly, I set out what we expect to see by way of disclosures in the forthcoming accounts, drawing on the results of our work.

• Clear explanation of the key judgements made in response to the new reporting requirements;

• Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year;

• Clear identification of practical expedients used on transition and accounting policy choices; and

• Well explained reconciliation, where necessary, of operating lease commitments under IAS 17, 'Leases', the previous standard and lease liabilities under IFRS 16."

The implementation of IFRS is delayed until 1 April 2020 in the public sector when it will replace IAS 17 Leases and the three interpretations that supported its application. Authorities will need information and processes in place to enable them to comply with the requirements. They will need to make disclosures in the 2019/20 accounts about the impact of IFRS 16 in accordance with IAS 8/ Code 3.3.4.3 requirements for disclosure about standards which are issued but are not yet effective.

Financial Reporting

Challenge question:

Will you have the opportunity to review and comment on your authority's statement of accounts before they are published at the end of May?

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and

2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

https://www.themj.co.uk/What-is-the-future-for-audit/214769

Grant Thornton’s Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available our on our online hub, where you can read the new report and our regional analyses.

Page 44

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

• businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment

• policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas

• Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

1 Prosperity

2 Dynamism and opportunity

3 Inclusion and equality

4 Health, wellbeing and happiness

5 Resilience and sustainability

6 Community trust and belonging

This year’s index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

1 Ensure that decisions are made on the basis of robust local evidence.

2 Focus on the transformational trends as well as the local enablers

3 Align investment decisions to support the creation of sustainable growth

4 Align new funding to support the creation of sustainable growth

5 Provide space for innovation and new approaches

6 Focus on place over organisation

7 Take a longer-term view

The online report is available here:

https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/

Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found "The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB)."

The IFS goes on to report "Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils' revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils' funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services."

The IFS reports a number of key facts and figures, including

1) Cuts to funding from central government have led to a 17% fall in councils' spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
2) Local government has become increasingly reliant on local taxes for revenues.
3) Councils' spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

https://www.ifs.org.uk/publications/14563

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Report Number: SWT 3/20

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 13 January 2020

SWAP Internal Audit – Progress Report 2019/20

This matter is the responsibility of Executive Councillor Ross Henley

Report Author: Alastair Woodland, Assistant Director, SWAP

1 Executive Summary / Purpose of the Report

1.1 The Internal Audit function plays a central role in corporate governance by providing assurance to the Audit, Governance and Standards Committee, looking over financial controls and checking on the probity of the organisation.

1.2 The 2019-20 Annual Audit Plan is to provide independent and objective assurance on SWT Internal Control Environment. This work will support the Annual Governance Statement.

2 Recommendations

2.1 Members are asked to note progress made in delivery of the 2019/20 internal audit plan and significant findings since the previous update in September 2019.

3 Risk Assessment (if appropriate)

3.1 Any large organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. SWT has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement.

4 Background and Full details of the Report

4.1 This report summarises the work of the Council’s Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in September 2019.
- A schedule of audits completed during the period, detailing their respective

assurance opinion rating, the number of recommendations and the respective priority rankings of these.

4.2 The Internal Audit Progress Report for 2019/20 is contained within the attached SWAP Report.

5 Links to Corporate Strategy

5.1 Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council's internal auditors, SWAP Internal Audit Services.

6 Finance / Resource Implications

6.1 There are no specific finance issues relating to this report.

7 Legal Implications (if any)

7.1 There are no specific legal issues relating to this report.

8 Climate and Sustainability Implications (if any)

8.1 There are no direct implications from this report.

9 Safeguarding and/or Community Safety Implications (if any)

9.1 There are no direct implications from this report.

10 Equality and Diversity Implications (if any)

10.1 There are no direct implications from this report.

11 Social Value Implications (if any)

11.1 There are no direct implications from this report.

12 Partnership Implications (if any)

12.1 There are no direct implications from this report.

13 Health and Wellbeing Implications (if any)

13.1 There are no direct implications from this report.

14 Asset Management Implications (if any)

14.1 There are no direct implications from this report.

15 Data Protection Implications (if any)

15.1 There are no direct implications from this report.

16 Consultation Implications (if any)

16.1 There are no direct implications from this report.

17 Scrutiny Comments / Recommendation(s) (if any)

N/A

Democratic Path:

- **Audit, Governance and Standards Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

Reporting Frequency: Quarterly

List of Appendices (delete if not applicable)

Appendix A	SWAP Internal Audit - Progress Report 2019/20

Contact Officers

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Somerset West and Taunton

Report of Internal Audit Activity

Plan Progress 2019/20 – January 2020

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

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Internal Audit Plan Progress 2019/2020

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Follow Up**
- **Non-Opinion / Advisory Reviews**

Role of Internal Audit

The Internal Audit service for the Somerset West and Taunton Council is provided by SWAP Internal Audit Services (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 Shadow Corporate Governance and Standards Committee at its meeting in March 2019.

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
- Follow Up
- Non-Opinion / Advisory Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team. This year's Audit Plan was reported to the Shadow Corporate Governance Committee and approved at its meeting in March 2019.

Audit assignments are undertaken in accordance with this Audit Plan to assess current levels of governance, control and risk.

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.

Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2019/20. 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 since the previous update in September 2019:

Audit Area	Quarter	Status	Opinion
2019/20			
New Council Governance Follow Up	1	Final	Advisory
Payroll System	2	Final	Partial
Information Management Project	2	Final	Partial
Housing Benefits	3	Final	Reasonable
Council Tax/NDR	3	Final	Reasonable
Banking Arrangements	3	Final	Partial

Partial Assurance Audits (See Appendix C)

As agreed with this Committee where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified.

Since the September 2019 update there are three 'Partial Assurance/No Assurance' reviews I need to

We rank our risks as 'High', 'Medium' or 'low'. Definitions of the risk assessment can be found in Appendix A.

bring to your attention; Payroll, Information Management Project and Banking Arrangements. These three audits are detailed further in **Appendix C**.

Corporate Risks

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place, we re-evaluate the risk based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the residual risk is assessed as 'High', I will bring this to your attention.

Since the September 2019 update there is one corporate risk to bring to your attention from the Information Management audit:

- The Council fails to manage its data leading to non-compliance with Data Protection Act (2018) and GDPR leading to financial and reputational damage.

Further details regarding the Information Management audit are captured in **Appendix C.**

Plan Progress Performance

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

Plan Progress 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 Somerset West and Taunton for the 2019/20 (as at 17 December 2019) were as follows:

Performance Target	Target Year end	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion In progress Not Started	>90%	48% 28% 24%
Quality of Audit Work Overall Client Satisfaction (*did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation*)	>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%	Reported Year end

Internal Audit Work Plan

We keep our audit plans under regular review so as to ensure that we audit the right things at the right time.

Approved Changes to the Audit Plan

The audit plan for 2019/20 is detailed in **Appendix B.** Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Somerset West and Taunton. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Performance management has been deferred to next year at the request from the service who have stated that a number of controls are still in development:

- **No Performance management framework** – the service has advised that this is under development, but not completed or implemented yet and needs to be agreed by SLT and communicated across the organisation.
- **Alignment of corporate objectives –** the Corporate Plan has recently been agreed, and a new process for developing operational plans has just been launched but these won't be complete for a few months yet.
- **Performance measures and reporting –** The service has advised that a high-level performance report has been in place since June and is reported on a monthly basis to SLT. This is being supported by performance reports for each service which are still being developed.

As we will be unable to complete testing in this area and the recognised weaknesses, this will be taken into account when forming our annual opinion for 2019-20.

Special Investigations

One fraud investigation has been received in relation to Housing following a whistleblowing allegation. The investigation is currently ongoing and no further information will be provided at this time.

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **Substantial**
- **Reasonable**
- **Partial**
- **No Assurance**
- **Non-Opinion/Advisory**

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★☆	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★☆☆	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	▲☆☆☆	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

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. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- 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.

Definitions of Risk

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

Internal Audit Work Plan

APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor Recommendation 1	2	3	Comments
FINAL									
Follow Up	Housing - Fire Safety Management Follow Up	1	Final	Advisory	9	4	3	2	
Follow Up	Supplier Resilience Follow-Up	1	Final	Advisory	6	0	1	5	
ICT Audit	Migration and integration of key systems for Single Authority (Creditors, Debtors GL)	1	Final	Reasonable	2	0	1	1	
Governance, Fraud & Corruption	New Council Governance Follow Up	1	Final	Advisory	4	-	-	-	
Follow Up	Bereavement Service Follow Up	2	Final	Advisory	5	0	2	3	
Key Control	Payroll System	2	Final	Partial	5	0	0	5	See Appendix C
ICT Audit	Information Management Project	2	Final	Partial	6	1	4	1	See Appendix C
Key Control	Housing Benefits	3	Final	Reasonable	2	0	0	2	
Key Control	Council Tax/NDR	3	Final	Reasonable	2	0	0	2	
Key Control	Banking arrangements	3	Final	Partial	5	0	1	4	See Appendix C
DRAFT									
Key Control	Treasury Management	3	Draft						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor Recommendation 1	2	3	Comments
Governance, Fraud & Corruption	Transformation - Lesson Learned	2	Draft						Draft report close-out meeting postponed due to illness, rescheduled for new year.
IN PROGRESS									
Governance, Fraud & Corruption	Transition Arrangements	1	Scoping						
Key Control	Housing Rents	3	In Progress						
Key Control	Creditors	3	In Progress						
Key Control	Debtors	3	In Progress						
Key Control	Main Accounting, including budget responsibility	3	In Progress						
Governance, Fraud & Corruption	Business Continuity Planning (includes links to DR)	4	In Progress						
Special Investigation	**New:** Whistleblowing Allegation - Housing	3	In Progress						
NOT STARTED									
Governance, Fraud & Corruption	Risk Management	4							
Key Control	System Parameter testing Civica	4							
Governance, Fraud & Corruption	Transformation: Benefits Realisation	4							

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor Recommendation			Comments
						1	2	3	
Operational	Housing - Asbestos Management	4							
Operational	Building Control	4							
Governance, Fraud & Corruption	Commercial Investments and Income generation strategies	4							
DROPPED									
Governance, Fraud & Corruption	Consultancy Expenditure VFM	2			Replaced by Transformation lessons learned				
Governance, Fraud & Corruption	Performance Management	4			Replaced by Whistleblowing Allegation				

Audit Assignments completed since the September 2019 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Summary of Audit Findings and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in September 2019 that has received partial assurance. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the September 2019 update there is one follow up audits that I need to bring to your attention.

ICT

ICT audits provide the Authority with assurance with regards to their compliance with industry best practice. As with Operational Audits, an audit opinion is given.

Information Management – Partial Assurance

The purpose of the review was to ensure that the objectives of the Information Management project are being delivered.

The Information Management project has been in progress for over a year and the first deliverables are now being realised with the development of a retention & disposal schedule. However, this only defines how long the Council should be keeping their data and how it should be stored, there is still a need to determine how the Council will review all data held to ensure compliance with the schedules. The areas within the Information Management Project that are outstanding are:

- To cleanse and migrate network drives – personal and shared
- To provide the information architecture for new corporate file plan and EDRMS

A business case for the next project phase is in development but until the stored data has been cleansed and migrated the Council will remain non-compliant with the Data Protection Act 2018. With the retention and disposal schedules now complete, the Council could commit and challenge service areas to start manually reviewing their files against the schedules which will, at least, start the organisation working towards compliance.

Beyond just the legislative requirements, unmanaged data is limiting the Council's opportunities to use their data as an asset and will also impact on the knowledge management within the organisation. It was also evident that the Council need to develop a data conscious culture amongst staff. Interviews with staff demonstrated a mixed understanding of the information management project, and even those with awareness of the aims were not always consistent in taking action themselves to manage data under their responsibility.

A high corporate risk has therefore been offered with this audit, this can be reduced should the Council agree a business case with a clear (and not prolonged) target for compliance and ensures there are resources in place to achieve this. Whilst a business case is currently being drafted by a Consultant, there is still a need for the Council to ensure that the business case is in line with their risk appetite, focussing on mitigating the higher risks as a priority above other potential objectives within the project.

Priority 1 Recommendations – Information Management

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Information Management					
1	There are no target timescales in place for achieving compliance with the DPA2018. Development of project beyond the development of the retention and disposal schedules is to be confirmed and approved. Limiting the opportunities for compliance with Data Protection Act 2018.	The Council fails to successfully implement change resulting in continued non-compliance beyond the ICO's current discretion period.	We recommend that, as part of the agreement of the business case, the Head of Performance and Governance ensures a target timescale for compliance is determined and progress is measured against the target timescales.	It has been agreed that a project will start shortly on the implementation of O365 and EDRMs and therefore we will imminently have a timescale.	31 December 2019

Priority 2 Recommendations – Information Management

Page 65

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
			Information Management		
1	Staff and Members are not aware of their responsibilities to achieve compliance. A data conscious culture is not embedded within the Council with staff unaware of who has ownership for ensuring data compliance. Awareness of retention and disposal schedules is limited.	A data conscious culture is not embedded, with staff having a desire to retain and hoard documents impacting on delivery of the objectives of the information management project and compliance with legislation.	We recommend that together with training, the Head of Performance and Governance implements initiatives to embed a data conscious culture. Opportunities could include: • Providing staff and teams with summaries of their records, including comparison across departments • Increased engagement with a range of staff involved in the delivery of the project • Embedding data management values into the organisational behaviours including in recruitment. • Increase awareness of resources (such as the data retention and disposal schedules) that are already available to support staff, • Embed data management values into recruitment process and induction highlighting to staff on day one the expectations of the Council	Work is progressing within this area and we are also looking at appointing data champions across the Council to help support the work. We have also identified a service area where they can pilot data management initiatives and act as an advocate for the wider business. We want to ensure that an improved culture is in place prior to the roll-out of new EDMS to ensure that the system is being used appropriately and therefore a number of these actions will continue to be ongoing. We are hoping to start a real push on improving the data management practices with staff from January 2020 and a target timescale has been set in line with this initiative.	31 January 2020
2	There is currently no method to monitor what progress is being made towards compliance despite the efforts made to communicate and inform staff.	The Council is unable to monitor the delivery of project implementation to ascertain whether positive progress is being made and that the project will be delivered within the required timescales – non-delivery will lead to continued non-compliance with legislation and	We recommend that once records (both paper and digital) have been analysed that a reporting method is developed that can demonstrate progress towards compliance across the following: • Personal drives • Shared Drives • Sharepoint sites	The software is currently out for procurement which will help with the monitoring and analysing of all files and this will need to be used periodically. With regards to paper files, we will be starting in December to do sample checking on what is held. From this we will then look at how we can set up the strong room using a file management structure. The target timescales	31 January 2020

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
		potential for financial penalty and reputational damage.	• Paper files • Other	have been put in place for when we can start monitoring records held.	
3	The process to review existing files against the retention and disposal schedules is in development, however without this process in place there is continued delay in the Council's journey towards compliance.	The Council is unable to scope the work required to achieve compliance resulting in ongoing non-compliance with legislation leading to financial penalty and reputational damage.	We recommend that the Head of Performance and Governance ensures, prior to the development of the next phase of the project, some analysis is undertaken (even on sample basis) to identify the potential number of digital files that will need cleansing. This will support in identifying the scale of the project and the resource required for compliance. The cleansing of data may also achieve a saving on the amount of server space is required.	This action has already been done and a decision has been made to progress the work as part of a wider project on implementation of O365 and EDRMS.	n/a
4			We recommend that the Head of Performance and Governance identifies a protocol for determining where paper files need to be retained (e.g deeds), a process for reviewing all files against this protocol should then be undertaken and those that are not compliant should either be digitized to support future compliance and access to data or destroyed.	Agreed - We need an organisational policy on where we can determine whether a hard copy should be retained which will support staff when they're working on cleansing files as well as providing guidance on how records should be scanned.	30 April 2020

Audit Assignments completed since the September 2019 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Key Control Audits

Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.

Payroll – Partial Assurance

The annual key control review assesses the effectiveness of the financial controls in relation to the Payroll system. This audit has previously received a partial assurance and whilst improvement has been made there were five priority-3 recommendations made that have led to a Partial assurance being offered.

Weaknesses identified include:

- No clear separation of duties in managing payroll processing for new starters, leavers and changes
- Temporary changes to pay are not approved or reported to Payroll
- New starter process is not consistently followed
- No written procedures for payroll tasks
- Payments were made to an officer who had left the council for three months before being identified.
- Previous audit recommendations were outstanding

Recommendations raised to management have been agreed with target dates for implementation by September 2020.

Audit Assignments completed since the September 2019 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Key Control Audits (Continued)

Banking Arrangements – Partial Assurance

As part of creating the new Council the bank accounts have been brought together and moved into the new Councils name. This has left the new Council with twenty-one bank accounts to monitor. The purpose of this review was to assess the Council banking arrangements and ensure they are adequate to control funds and achieve best value for money.

The banking contract was last tendered in 2012 and extended in 2018 for two years due to transformation. The Council has not yet started the retender exercise. While the extension allowed time to create the new Council, the banking contract still needs to be retendered and no progress has been made on this to date. There has been no pre-tender work done by the council to start assessing if there are better offers out there and to allow for an OJEU compliant procurement process to be completed.

Priority 2 Recommendations – Banking Arrangements

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Banking Arrangements					
1	The banking contract was last tendered in 2012 and extended in 2018 for two years due to transformation. The Council has not yet started the retender exercise.	Inaccurate, out of date information can lead to bad decisions being made. This could result in financial and reputational repercussions for the council.	We recommend that the Case Manager Procurement starts the procurement process for a new banking contract.	Agreed	31 July 2020

Report Number: SWT 4/20

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 13 January 2020

Treasury Management Update – 30th September 2019

This matter is the responsibility of Executive Councillor Ross Henley

Report Author: Steve Plenty, Finance Specialist

1 Executive Summary / Purpose of the Report

1.1 To provide Members with an update on the Treasury Management activity of the Council for the first six months of 2019/20. It focuses on a review of the Council's borrowing and investment activities.

2 Recommendations

2.1 To note the Treasury Management position as at 30th September 2019 (Appendix A attached to this report.

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control.	2	3	6
The Council has an approved Treasury Management Strategy Statement and effective management practices to ensure compliance.	1	2	2

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	**Indicator**	**Description (chance of occurrence)**
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background and Full details of the Report

4.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit, Governance and Standards Committee.

4.2 The Authority's treasury management strategy for 2019/20 was approved at a meeting of the Shadow Council on 21 February 2019. The Authority has [borrowed and/or invested] substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

4.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments.

Amend as applicable: The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 21 February 2019.

5 Links to Corporate Aims / Priorities

5.1 The investment strategy supports the delivery of the Corporate Aims.

6 Finance / Resource Implications

6.1 Any financial / resource implications are contained within the Appendix to this covering report.

7 Legal Implications, Environmental Impact Implications, Safeguarding and/or Community Safety Implications, Equality and Diversity Implications, Social Value Implications, Partnership Implications, Health and Wellbeing Implications, Asset Management Implications, Data Protection Implications and Consultation Implications

7.1 None in respect of this report.

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**
- **Full Council – Yes**

Reporting Frequency: Annually

List of Appendices

Appendix A	Mid-Year Treasury Management Update

Contact Officers

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Appendix A

Treasury Management Update Report
As At 30th September 2019

Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

The Council's treasury management strategy for 2019/20 was approved at a meeting on 21 February 2019. 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 remains central to the Council's treasury management strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was also approved by full Council on 21 February 2019.

External Context

Economic background: UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision making.

Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and has committed to leaving the EU on 31st October regardless of whether a deal is reached with the EU. Mr Johnson prorogued Parliament which led some MPs to put forward a bill requiring him to seek a Brexit extension if no deal is in place by 19th October. The move was successful and, having been approved by the House of Lords, was passed into law. The Supreme Court subsequently ruled Mr Johnson's suspension of Parliament unlawful.

Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.

The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.

Financial markets: After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

Credit background: Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost

120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.

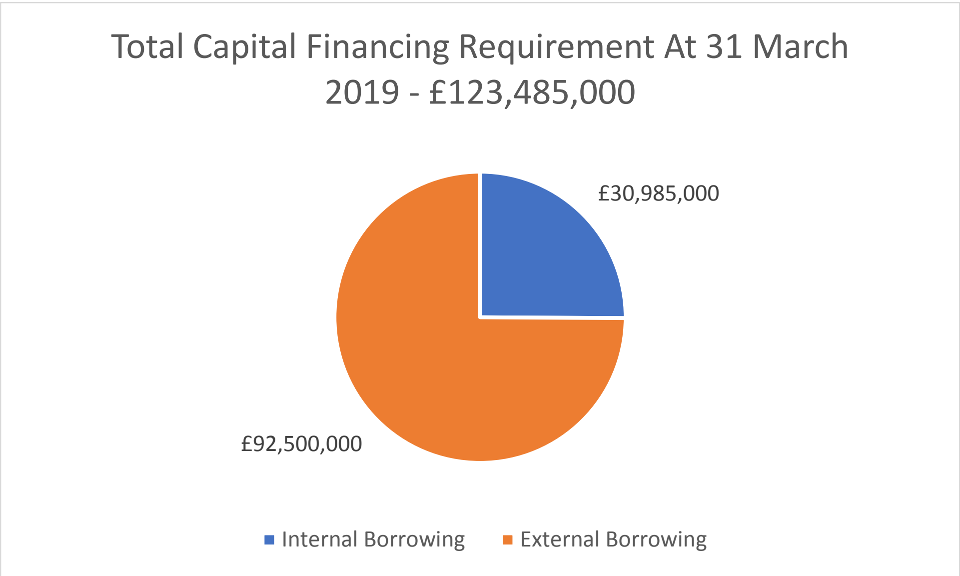
There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

Local Context

On 31st March 2019, the Council had a net investment position of £37.6m arising from its revenue and capital income and expenditure. 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. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.19 Actual £'000
General Fund CFR HRA CFR	20,456 103,029
Total CFR	**123,485**
External Borrowing	(92,500)
Less: Usable Reserves Less: Working Capital	(50,438) (18,153)
Net Investments	**37,606**



The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 30th September 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.19 £000	Movement £000	30.09.19 £000
Long Term Borrowing	(79,000)	0	(79,000)
Short Term Borrowing	(13,500)	10,000	(3,500)
Total Borrowing	**(92,500)**	**10,000**	**(82,500)**
Long Term Investments	2,161	(36)	2,125
Short Term Investments	17,055	(9,515)	7,540
Cash and Cash Equivalents	22,028	7,048	29,076
Total Investments	**41,244**	**(2,503)**	**38,741**
Net Borrowing	**(51,256)**	**7,497**	**(43,759)**

Borrowing Strategy during the period

At 30th September 2019 the Council held £82.5m of loans, which has reduced by £10m from the reported position at 31 March 2019. This is due to the repayment of the short-term borrowing taken out to cover the financial year end position. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

Type of Borrowing	**31 March 2019 £000**	**Movement 2018 £000**	**30 September 2019 £000**
PWLB Fixed Rate Loans	74,500	0	74,500
PWLB Variable Rate Loans	5,000	0	5,000
Barclays Bank Fixed Rate Loan	3,000	0	3,000
Local Authority	10,000	(10,000)	0
Total	**92,500**	**(10,000)**	**82,500**

The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

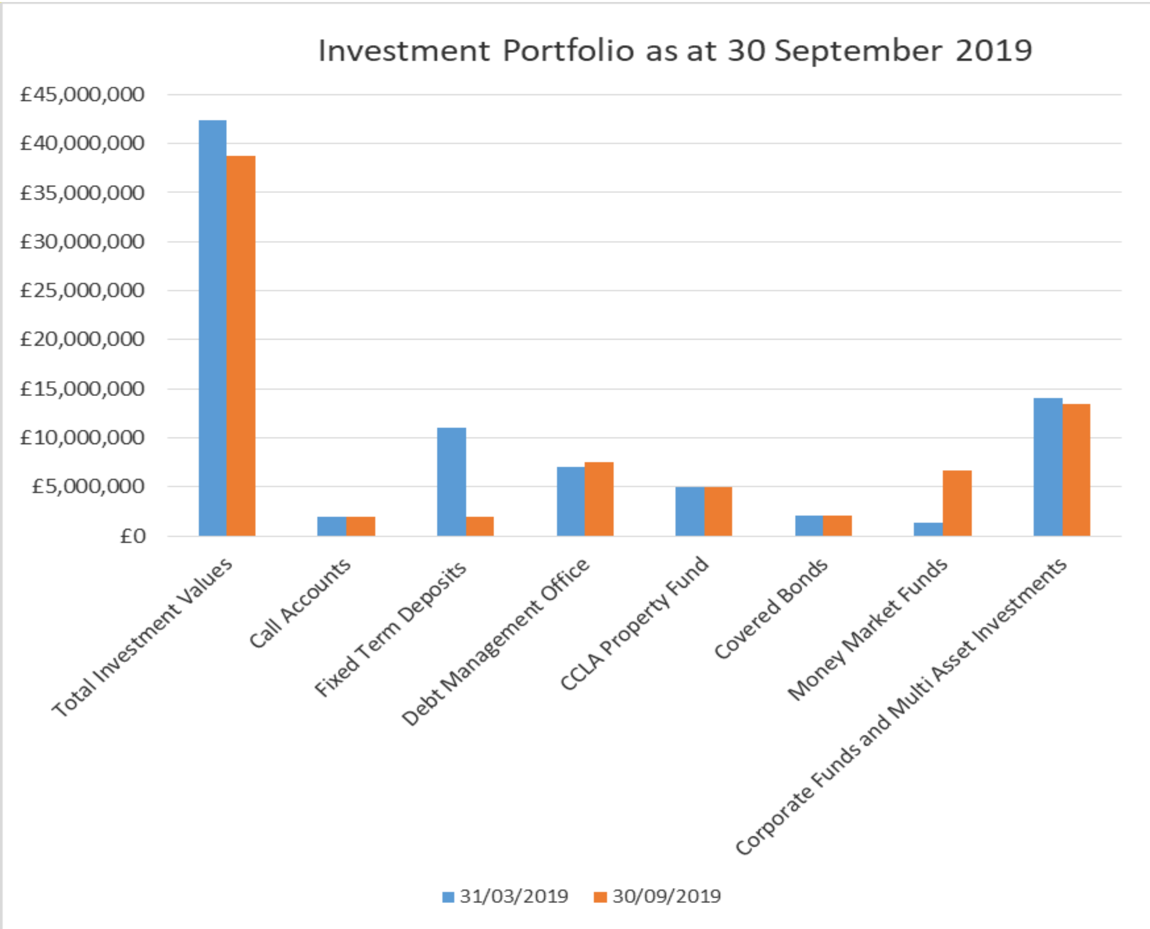
The Council is currently reviewing its capital programme and therefore may have plans to borrow for both the General Fund and Housing Revenue Account at a future point in time.

Treasury Investment Activity

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £38.26 million and £60.40 million due to timing differences between income and expenditure. The investment position as at 30th September 2019 is shown in table 4 below.

Table 4: Treasury Investment Position

Type of Investment	31 March 2019 £000	Movement 2018 £000	30 September 2019 £000
Call Accounts	1,916	51	1,967
Fixed Term Deposits	11,000	(9,000)	2,000
Debt Management Office	7,042	498	7,540
Property Fund	5,000	10	5,010
Covered Bonds	2,128	(4)	2,124
Money Market Funds	1,310	5,390	6,700
Corporate and Multi Asset Funds	14,000	(600)	13,400
Total Investments	**42,396**	**(3,655)**	**38,741**



Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum 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.

Given the increasing risk and low returns from short-term unsecured bank investments, the Council has further diversified into higher yielding asset classes. During the period, the Council invested £2m into the Schroder Income Maximser Fund.

The table below shows counterparty credit quality as measured by credit ratings and the percentage of the in-house investment portfolio exposed to bail-in risk. This is an extract from Arlingclose's quarterly investment benchmarking

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return %
31.03.2019	Not Applicable	Not Applicable	Not Applicable	Not Applicable
30.09.2019	3.65	AA-	56%	1.84
Similar LAs	4.26	AA-	61%	1.58
All LAs	4.28	AA-	62%	1.22

£18.0m of the Council's investments are held in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of £262k, comprising of a £222k (2.91%) income return which is used to support services in year, and £40k (0.50%) in respect of capital growth.

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 are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates. In light of their performance over the medium / long-term and the Council's latest cash flow forecasts, investment in these funds has been increased, with £2m being invested in the Schroder Income Maximiser Fund as detailed above.

Readiness for Brexit: The scheduled leave date for the UK to leave the EU is now 31st October 2019 and there remains little political clarity as to whether a deal will be agreed by this date and, unless the exit date is pushed back yet again, the potential of a no-deal Brexit has increased significantly. As 31st October approaches the Council will ensure there are enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity and that its account with the Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.

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 Council also holds £2.47m of such investments held as loans to local businesses, charities, partnerships and sports clubs. These investments generated £44k of investment income for the Council in the first six months representing an average rate of return of 3.61%.

Treasury Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual 30.09.19 £000	Budget 30.09.19 £000	Variance 30.09.19 £000
Interest Paid	220	292	(72)
Interest Received	(326)	(704)	(378)

Compliance

The Strategic Finance Advisor and S151 Officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Specific Investment Limits

	Maximum Exposure	2019/20 Limit	Complied
Any single organisation (except UK government)	£1.800m	£9m each	✓
UK central government and UK local authorities	£15.200m	Unlimited	✓
Any group of organisations under the same ownership	£2.000m	£9m per Group	✓
Any group of pooled funds under the same management	£5.000m	£21m per Manager	✓
Negotiable instruments held in a broker's nominees account	£2.000m	£21m per Broker	✓
Foreign countries	£0	£9m per Country	✓
Registered providers	£0	£21m in Total	✓
Loans to unrated corporates	£0	£9m in Total	✓
Money market funds	£16.860m	£42m in Total	✓
Real Estate Investment Trusts	£0	£21m in Total	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	30.09.19 Actual £000	**2019/20 Operational Boundary £000**	**2019/20 Authorised Limit £000**	**Complied**
Borrowing	82,500	200,000	220,000	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However, the Council stayed well within this limit during the period.

Treasury Management Indicators

The Council measures and manages its exposures 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 rating 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.

	30.09.19 Actual	2019/20 Target	Complied
Portfolio average credit rating	AA-	A-	✓

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.

	30.09.19 Actual	2019/20 Target	Complied
Total cash available within 3 months	£32.7m	£21.0m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	30.9.19 Actual	2019/20 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	(£0.042m)	(£0.121m)	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.042m	£0.121m	✓

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 all borrowing were:

	30.09.19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	4.24%	50%	0%	✓
1 year and within 2 years	4.24%	50%	0%	✓
24 months and within 5 years	33.94%	50%	0%	✓
5 years and within 10 years	49.09%	75%	0%	✓
10 years and above	8.49%	100%	0%	✓

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.

Principal Sums Invested for Periods Longer than a year: 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:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£2m	£0m	£0m
Limit on principal invested beyond year end	£40m	£24m	£24m
Complied	✓	✓	✓

Outlook for the remainder of 2019/20

The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.

Parliament appears to have frustrated UK Prime Minister Boris Johnson's desire to exit the EU on 31st October. The probability of a no-deal EU exit in the immediate term has decreased, although a no-deal Brexit cannot be entirely ruled out for 2019 and the risk of this event remains for 2020. The risk of a general election in the near term has, however, increased.

Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Cas	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

Appendix B

Investments as at 30 September 2019

Borrower	**Amount £**	**Rate of Interest %**	**Date of Investment**	**Date of Maturity**
Lloyds Bank Plc	2,000,000	1.000	16/07/2019	16/01/2020
Debt Management Office	2,000,000	0.520	10/06/2019	14/10/2019
Debt Management Office	1,400,000	0.510	08/07/2019	11/11/2019
Debt Management Office	330,000	0.510	09/07/2019	11/11/2019
Debt Management Office	1,900,000	0.520	12/08/2019	09/12/2019
Debt Management Office	1,910,000	0.530	10/09/2019	13/01/2020
Leeds Building Society	1,062,959	1.565	24/04/2015	16/11/2020
Leeds Building Society	1,061,489	1.622	01/05/2018	16/11/2020
NatWest	167,029	0.050	N/A	On Demand
Aberdeen Standard Liquidity	3,400,000	Variable	N/A	On Demand
Federated Money Market Fund	3,300,000	Variable	N/A	On Demand
CCLA Investment Fund (Public Sector Deposit Fund)	1,000,000	Variable	N/A	On Demand
Santander	1,800,000	Variable	N/A	On Demand
CCLA Local Authority Property Fund	5,010,035	Variable	N/A	On Demand
Columbia Threadneedle Strategic Bond Fund	2,004,510	Variable	N/A	On Demand
Investec Diverse Income Fund	2,899,687	Variable	N/A	On Demand
Payden and Rygel Sterling Reserve Fund	2,006,910	Variable	N/A	On Demand
Federated Cash Plus	1,039,663	Variable	N/A	On Demand
Royal London Enhanced Cash Plus Fund (Class Y)	996,345	Variable	N/A	On Demand
Aberdeen Investments - Sterling Short Duration Cash Fund (K2)	1,042,222	Variable	N/A	On Demand
Schroder Income Maximser Fund	2,000,000	Variable	N/A	On Demand
Aviva Government Money Market Fund	410,000	Variable	N/A	On Demand
TOTAL	**38,740,849**			

Report Number: SWT 5/20

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 13 January 2020

Capital, Investment and Treasury Strategies 2020/21 to 2024/25

This matter is the responsibility of Executive Councillor Ross Henley

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

1 Executive Summary / Purpose of the Report

1.1 The purpose of this report is to inform members of the recommended strategy in relation to capital expenditure and financing, investments and treasury management activities.

1.2 Previously separate strategies have been presented, however this report provides a holistic view of the Council's capital, investment and borrowing requirements meeting the requirements of statutory guidance issued by government in January 2018.

2 Recommendations

2.1 Audit, Governance and Standards Committee are requested to review and comment on the Draft Treasury Management Strategy, and recommend for approval to the Executive subject to finalising with key budget information.

2.2 Audit, Governance and Standards Committee are requested to note the requirement for the Constitution to be reviewed for completeness and further clarity on responsibilities for all aspects of the strategies included within this report.

2.3 Audit, Governance and Standards Committee to provide feedback on the full report including any suggestions for improvement.

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control.	2	4	8
The Council has in place suitable arrangements to develop, approve and deliver its Capital, Investment and Treasury strategies through appropriately trained staff and access to specialist treasury and commercial advice.	1	4	4

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Governance

4.1 The approved capital and treasury governance arrangements are set out in the Council's Constitution. These include:

- The Executive has delegated authority to approve the Treasury Management Strategy each year (Financial Procedure Rules – 3.13.2).
- The Executive is responsible for recommending the Capital Strategy and MRP Policy to Full Council for approval (Financial Procedure Rules – 3.1.10, 3.13.1)
- The Audit Governance and Standards Committee is responsible for monitoring treasury management performance through a mid-year and year-end report (Financial Procedure Rules – 3.13.5).

4.2 Responsibility for monitoring the Capital and Investment Strategies is not specified in the Constitution. It is proposed by the S151 Officer to report capital and investment performance to the Executive. Scrutiny Committee may also request this information as part of its work programme. Responsibility for the Investment Strategy is not specified in the Constitution however the S151 Officer views this as intrinsic to the Capital Strategy and therefore follows the same approach for approval and monitoring.

4.3 In order to ensure capital, investment and treasury performance reporting is coherent, the S151 Officer proposes to review the reporting arrangements for 2020/21 financial year in consultation with the committee Chairs for Scrutiny and Audit Governance and Standards. The Constitution should also be reviewed and updated to ensure it covers this fully.

5 Background and Full Details of the Report

5.1 In line with regulatory guidance, the Council is required to produce a Capital Strategy, and Investment Strategy and a Treasury Management Strategy. These are intrinsically linked so, whilst in the past these have been presented to Members as separate reports, they have been pulled together into a draft consolidated document this year. It is recognised this is a large document now, but is helpful on this occasion to provide a holistic review of the relevant data and information together with supporting narrative. The report is also expanded to include a number of graphs and charts to hopefully make some of this information more accessible to a wider audience. The S151 Officer proposes to explore future iterations of this report to condense into a single, shorter strategy document. This will be discussed with our external auditor to ensure compliance to the relevant regulations is not compromised.

5.2 The Audit, Governance and Standards Committee is requested specifically to review and comment on the draft Treasury Management Strategy section of the report. However, feedback and comments are invited on the whole draft report.

5.3 Some of the information required to complete key forecasts and parameters in this report are not yet available. The Capital and Investment Strategies will be updated and finalised alongside the Draft Budget in the February 2020 committee cycle. The information included at this stage should therefore be regarded as indicative only and subject to change.

5.4 In January, Finance Officers will work with budget holders to updated projected profiling of current approved and proposed capital spending between financial years.

5.5 Work is currently underway to produce a fully reviewed and updated 30-Year Business Plan for the Housing Revenue Account. This may not be completed before these Strategies are to be approved by Full Council in February. As such the HRA information will need to be presented using the best available information at this stage, and may need to be formally revised during 2020/21 financial year to ensure these strategies and the Business Plan are fully aligned. In particular it is anticipated the HRA Business Plan will propose significant investment in social housing, and officers are currently working with Arlingclose to develop the approach to financing this investment.

6 Links to Corporate Aims / Priorities

6.1 The Capital, Investment and Treasury Management strategies support the delivery of the Corporate Aims.

7 Finance / Resource Implications

7.1 Any financial / resource implications are contained within the Appendix to this covering report.

8 Legal Implications, Environmental Impact Implications, Safeguarding and/or Community Safety Implications, Equality and Diversity Implications, Social Value Implications, Partnership Implications, Health and Wellbeing Implications, Asset Management Implications, Data Protection Implications and Consultation Implications

8.1 None in respect of this report.

Democratic Path:

- **Audit, Governance and Standards Committee - Yes**
- **Executive - Yes**
- **Full Council - Yes**

Reporting Frequency: Annually

List of Appendices

Appendix A	Capital, Investment and Treasury Strategies 2020/21 to 2024/25

Contact Officers

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APPENDIX A

Somerset West and Taunton Council

Capital, Investment and Treasury Strategies 2020/21 to 2024/25

Capital Strategy

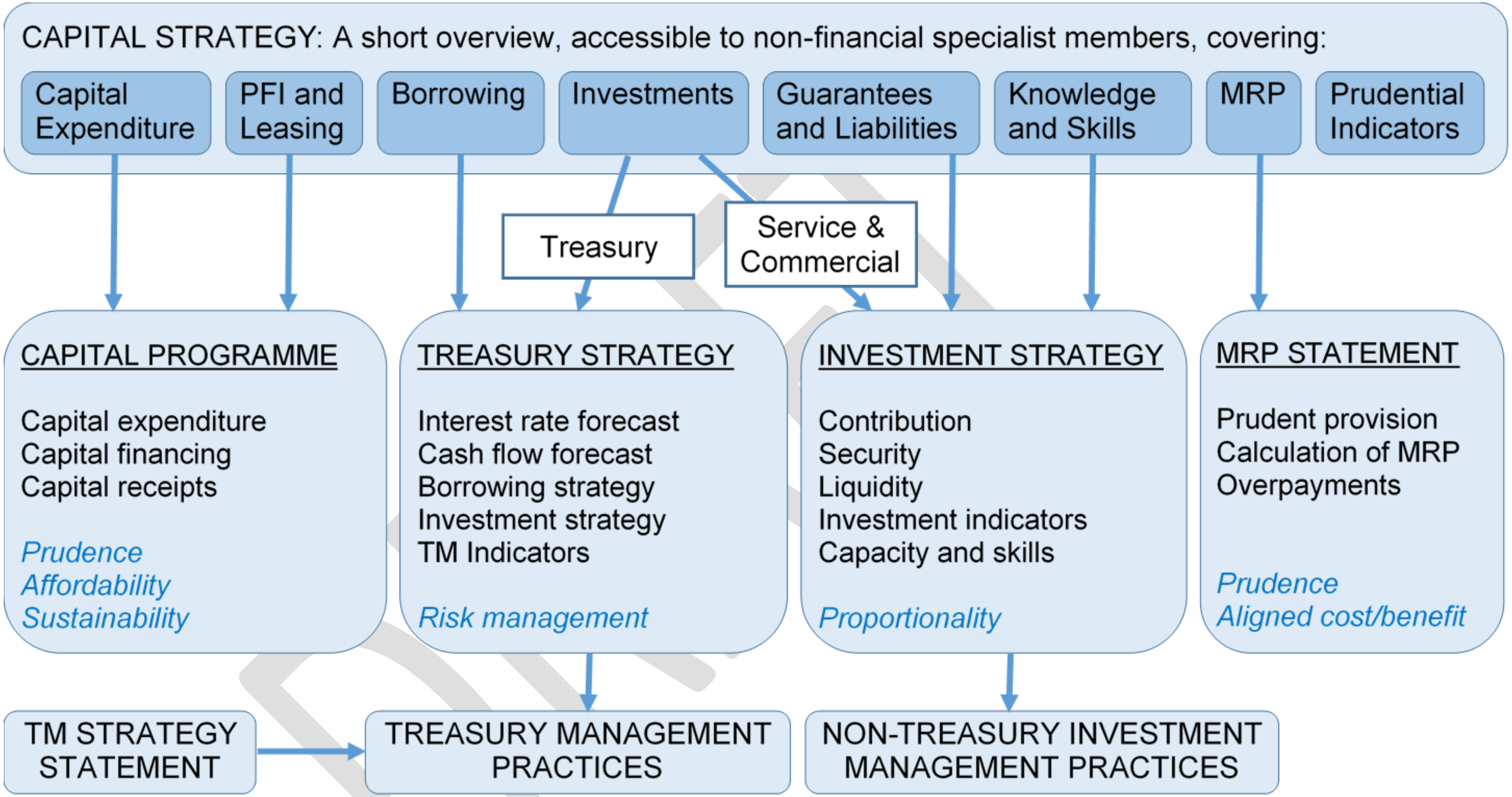
1 Introduction

1.1 This Strategy document sets out Somerset West and Taunton Council's approach to capital investment. It provides an important framework and guiding principles that underpins its longer term capital investment plans, and forms part of the overarching corporate planning and financial strategy for the Council.

1.2 The Capital Strategy is part of the overarching financial governance framework, supporting strategic planning and financial strategy. It is included here together with closely related strategies in respect of investment and treasury management to provide a holistic view of capital, investment and borrowing requirements.

1.3 Expand……….

1.4 The following diagram represents the Capital Strategy framework and how the capital, investment, treasury and MRP approaches interlink.


CAPITAL STRATEGY: A short overview, accessible to non-financial specialist members, covering:
Capital Expenditure
PFI and Leasing
Borrowing
Investments
Guarantees and Liabilities
Knowledge and Skills
MRP
Prudential Indicators
Treasury
Service & Commercial
CAPITAL PROGRAMME
Capital expenditure
Capital financing
Capital receipts
Prudence
Affordability
Sustainability
TREASURY STRATEGY
Interest rate forecast
Cash flow forecast
Borrowing strategy
Investment strategy
TM Indicators
Risk management
INVESTMENT STRATEGY
Contribution
Security
Liquidity
Investment indicators
Capacity and skills
Proportionality
MRP STATEMENT
Prudent provision
Calculation of MRP
Overpayments
Prudence
Aligned cost/benefit
TM STRATEGY STATEMENT
TREASURY MANAGEMENT PRACTICES
NON-TREASURY INVESTMENT MANAGEMENT PRACTICES

2 Capital Expenditure

Capital Expenditure Estimates

2.1 Capital expenditure is incurred where the Council spends money on constructing or acquiring assets such as land and buildings including housing, vehicles, plant and equipment, which will be used for more than one year, as well as larger scale maintenance works that maintain or enhance the Councils existing assets. In local government capital expenditure can also include spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure. For example assets costing below £10,000 are not capitalised and are charged as revenue expenditure in the year. This discretion is reflected in the Council's accounting policies which are set out within the Statement of Accounts each year.

2.2 The information included in the table below in respect of 2018/19 financial year relates to the two predecessor councils – Taunton Deane and West Somerset – included for comparative purposes. Budgets and estimates for 2019/20 onwards relate to Somerset West and Taunton Council, which came into being on 1 April 2019.

Table 1: Prudential Indicator – Actual and Estimates of Capital Expenditure

	2018/19 Actual £k	2019/20 Budget £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k	Totals 2019/20-2024/25 £k
General Services	17,709	17,774	8,710	5,913	4,893	4,673	1,673	61,345
Capital Investments	0	0	50,000	50,000	0	0	0	100,000
Housing services	11,379	9,586	16,344	TBC	TBC	TBC	TBC	TBC
Totals	**29,088**	**27,360**	**75,054**	**TBC**	**TBC**	**TBC**	**TBC**	**TBC**

2.3 The Council's capital investment focusses on the following main areas:

- Investment in new and existing operational assets and issuing capital grants to support the delivery of its services and strategic priorities. This includes schemes such as technology, regeneration and infrastructure projects, contributions to major transport and flood alleviation projects, and grants for accessibility adaptations and equipment to support independent living.
- Investment to grow and balance the Council's commercial investment income portfolio, as set out in the investment strategy. This may include direct property freehold or long-leasehold acquisition, as well as shareholdings and loans to third parties and subsidiaries.
- Investment in the Council's own housing provision by acquiring, building and improving its housing stock. This includes schemes such as the North Taunton housing regeneration programme, annual programme of additions to stock to deliver vital affordable housing in the district, and major works to maintain and improve our decent homes standards across the portfolio. This investment is funded through the Housing Revenue Account.

2.4 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is, therefore, recorded separately.

2.5 Capital expenditure in 2020/21 includes £x.xm due to a change in accounting for leases, where <brief explanation why/what…>,

Capital Programme

2.6 The Capital Programme represents the Council's commitment to continue to invest in its operational asset portfolio and wider investment to support housing, economy and place-shaping priorities. It is reviewed annually and approved through the budget setting process, taking into account the availability of capital resources and the financing cost implications on the revenue budget.

2.7 New capital schemes and projects are usually added to the Programme as part of the annual process, however the Council's governance arrangements allow for new schemes and projects to be added or removed from the programme during the year subject to appropriate approvals.

2.8 The annual programme is developed where managers bid in September/October for projects to be considered, with an outline scheme appraisal and specific funding proposals where appropriate. Bids are collated by Finance to summarise the potential expenditure requirement and assess the capital financing options. The programme is also informed by the Council's Asset Management Strategy and Plan, as well as strategic organisational development and improvement programmes.

2.9 The draft programme is presented initially to the Leadership team – Senior Officers and Executive Councillors, and priority proposals are then taken forward to Scrutiny Committee for review and comment. The Executive will then consider and recommend the final draft Capital Programme to Full Council for approval in February.

2.10 PF Comment – Add brief explanation of governance arrangements in respect of asset management.

2.11 The proposed capital programme includes investment of £50.0m in 2020/21, with indicative further investment of £50.0m in the subsequent four years to 2024/25. The details of this investment is included in the General Fund and Housing Revenue Account 2020/21 Budget Estimates reports. The following charts provide an overview of the main areas of investment.

<Insert line or stacked bar chart of expenditure profile, and pie chart for the same groups/types for the whole 5-year period – include both GF and HRA in same graphs as this is a corporate view> <can schemes be grouped under Corporate Strategy headings?>

Asset Management

2.12 <Insert commentary about asset management approach>.

3 Capital Financing

3.1 The Council's capital investment falls within the scope of the CIPFA Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code'), to which the Council must give due regard. The Code was last updated in 2017. Under the Prudential Code the Council has discretion over the funding of capital expenditure and the freedom to determine the level of borrowing it undertakes to deliver the Capital Programme.

3.2 All capital expenditure must be financed, and there are range of potential funding sources the Council may use including its own resources or externally:

- Capital receipts from asset disposals and loan repayments
- Capital grants e.g. from Government or other local authorities
- Contributions from others e.g. Section 106 (S106) and Community Infrastructure Levy (CIL)
- Revenue Contributions to Capital e.g. from the Revenue Budget or Revenue Reserves
- Debt financing e.g. borrowing, capital market bonds, leasing

Capital Financing Plan

3.3 The planned financing of the capital expenditure in Table 1 above is as follows:

Table 2: Capital Financing Plan

	2018/19 Actual £k	2019/20 Budget £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k	Totals 2019/20-2024/25 £k
External Sources:								
Grants and general contributions	2,077	1,695	1,461	1,274	1,274	1,274	2,771	11,826
S106	1,025	0	0	0	0	0	0	1,025
S106 – Hinkley	1,263	0	0	0	0	0	0	1,263

	2018/19 Actual £k	2019/20 Budget £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k	Totals 2019/20-2024/25 £k
CIL	0	6,000	5,500	4,000	3,000	3,000	0	21,500
Sub-total – External	**4,365**	**7,695**	**6,961**	**5,274**	**4,274**	**4,274**	**2,771**	**35,614**
Own Resources:								
Capital receipts	3,302	1,076	2,704	TBC	TBC	TBC	TBC	TBC
Revenue contributions	14,546	11,089	6,515	TBC	TBC	TBC	TBC	TBC
Sub-total - Own	**17,848**	**12,165**	**9,219**	**TBC**	**TBC**	**TBC**	**TBC**	**TBC**
Debt:								
Loans	6,875	7,500	58,874	TBC	TBC	TBC	TBC	TBC
Leases	0	0	0	0	0	0	0	0
Sub-total - Debt	**6,875**	**7,500**	**58,874**	**TBC**	**TBC**	**TBC**	**TBC**	**TBC**
Total	**29,088**	**27,360**	**75,054**	**TBC**	**TBC**	**TBC**	**TBC**	**TBC**

3.4 The allocation of resources may vary over time, for example, where additional income is achieved through asset sales or obtaining external funding. The plan is therefore dynamic, and is overseen by the Council's S151 Officer to optimise financing arrangements on an ongoing basis. The estimates will not commit the Council to particular methods of financing. The S151 Officer will determine the actual financing of capital expenditure incurred at the end of the financial year.

3.5 The implications of financing capital expenditure from borrowing is that the expenditure is not funded immediately but charged to the revenue budget over a number of years. The Council may defer the timing of external borrowing on a short to medium term by using temporary cash resources held in reserves and balances. This practice, which is referred to as 'internal borrowing', does not reduce the magnitude of borrowing required or the level of funds held in reserves and balances; the funds are merely being utilised in the short term until they are required for their intended purpose. The timing of external borrowing and the balance of external / internal borrowing is determined by market conditions and the Council's cash flow position. Officers manage this position on a day to day basis in line with the overall Treasury Management Strategy.

3.6 Debt is only a temporary source of finance, since loans and leases must be repaid and this is, therefore, replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, capital receipts may be used to replace debt finance.

Capital Financing Requirement

3.7 The Council's cumulative amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing the Council's estimated CFR is as follows:

Table 3: Prudential Indicator – Actual and Estimated Capital Financing Requirement

	2018/19 Actual £k	2019/20 Estimate £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k
General Fund							
CFR Balance b/f	14,402	20,455	27,500	78,281	127,834	127,328	126,823
Expenditure financed by debt	17,707	17,774	58,710	55,913	4,893	4,673	1,673
MRP	-822	-455	-505	-505	-505	-505	-505
Capital receipts used to replace debt	-1,718	-177	-635	-455	0	0	0
Grants and Contributions	-9,114	-10,097	-6,789	-5,400	-4,894	-4,673	-1,673
Accounting adjustment - leases	0	0	0	0	0	0	0
GF CFR Balance c/f	20,455	27,500	78,281	127,834	127,328	126,823	126,318
HRA							
CFR Balance b/f	104,850	103,028	101,207	107,238	TBC	TBC	TBC
Expenditure financed by	11,379	9,586	16,344	TBC	TBC	TBC	TBC

	2018/19 Actual £k	2019/20 Estimate £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k
debt							
MRP	-1,821	-1,821	-1,557	0	0	0	0
Capital receipts used to replace debt	-1,596	-899	-2,069	TBC	TBC	TBC	TBC
Grants and Contributions	-9,784	-8,687	-6,687	TBC	TBC	TBC	TBC
Accounting adjustment - leases	0	0	TBC	TBC	TBC	TBC	TBC
HRA CFR Balance c/f	103,028	101,207	107,238	TBC	TBC	TBC	TBC
Total CFR Balance	**123,483**	**128,707**	**185,519**	**TBC**	**TBC**	**TBC**	**TBC**

3.8 The capital financing requirement for 2020/21 and subsequent years includes a £x.xm increase due to a change in the accounting for leases.

3.9 The chart shows that the Council’s proposed capital strategy and capital investment plans are expected to increase the overall indebtedness position of the next 5 years. It is important to ensure such plans are affordable and the Council can meet the costs of this debt over the short and long term. This strategy considers affordability through a range of measures, shown <cross-ref to affordability measures>.

Grants and Contributions

3.10 The Council will seek to access external funding towards its capital investment plans where funds are available and our schemes are within scope. Examples of grants may include Government schemes such Housing Infrastructure Fund, Future High Streets Fund and so on. We also receive contributions from other bodies such as developers in the form of S106 planning obligations contributions and Community Infrastructure Levy (see below). It is often the case that the Council will need to put some of its own resources towards a scheme in order to attract the external funding. However this can be effective in levering in funds to enable larger infrastructure investments to progress and mitigate marginal viability schemes.

3.11 The balance of capital grants reserves transferred to SWTC on 1 April 2019 is £5.344m. Of this sum, £5.200m is committed to financing the current approved Capital Programme. Bids are usually a competitive process therefore expenditure is usually only built into the approved capital programme once the funding has been confirmed.

S106

3.12 S106 contributions are agreed as contributions towards certain obligations through planning approvals. Contributions that related to district council services within SWT are paid to the Council, and are usually restricted on the nature of costs that the funds can be used for, such as public art, play areas and equipment, affordable housing provision. S106 can be used to fund both revenue and capital costs and therefore allocated to capital and revenue budgets accordingly.

3.13 Decisions regarding the allocation of funds may be taken by the relevant budget holder for the expenditure for amounts up to £20k, by Head of Function/Director/CEO and S151 Officer up to £50k and Portfolio Holder and S151 Officer above £50k.

Hinkley Point S106

3.14 Under the planning agreement for the development of Hinkley Point C nuclear power station, significant mitigation funds have been paid by EDF to the Council as the planning authority. The funds are used to contribute to enhanced service costs and can also be used for capital projects.

3.15 Proposals for the allocation of funds to specific projects are considered by the Planning Obligations Board, who will make recommendations to the Executive for schemes up to £250k, and by Full Council for larger schemes.

Community Infrastructure Levy (CIL)

3.16 The Council operates an approved CIL policy, with the levy payable on development in certain areas within the District. CIL is recognised as capital income and therefore provides resources to contribute to eligible infrastructure investment such as transport/roads, education, town centre regeneration and flood alleviation schemes. 15% (or 25% with an adopted Neighbourhood Plan) of CIL income is passed to town or parish councils, and 5% is allocated to fund administration costs.

3.17 The Policy is approved by Council and implemented by Officers. Council determines the allocation of CIL income to investment themes as part of the annual capital programme approval process. The Executive Committee or Portfolio Holder for xxx may agree specific scheme allocations for projects >£250k, or the xxx Director for projects <£250k, within the limits allocated by Council to each theme. Expenditure to be funded by CIL is only committed once CIL income has actually been received.

Table 4: Estimated CIL Retained Income (Net of town/parish share and administration costs)

	2018/19 Actual £k	2019/20 Estimate £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k
Net CIL Income	3,628	4,666	2,732	2,913	2,439	2,360	TBC

Capital Receipts

3.18 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts income.

3.19 The balance of capital receipts reserves transferred to SWTC on 1 April 2019 is £15.242m. Of this sum, £1.505m is committed to financing the current approved Capital Programme. The Council estimates it will receive £4.619m of capital receipts in the coming financial years as set out below.

Table 5: Capital Receipts Income Estimates

	2018/19 Actual £k	2019/20 Estimate £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k
General Fund:							
Asset Disposals	1,028	360	1,125	TBC	TBC	TBC	TBC
Loans and Grants Repaid	0	0	0	0	0	0	0
Other	307	191	TBC	TBC	TBC	TBC	TBC
General Fund Total	**1,335**	**551**	**TBC**	**TBC**	**TBC**	**TBC**	**TBC**
HRA:							
Right to Buy Sales	2,334	2,798	TBC	TBC	TBC	TBC	TBC
Other	32	145	TBC	TBC	TBC	TBC	TBC
HRA Total	**2,366**	**2,943**	**TBC**	**TBC**	**TBC**	**TBC**	**TBC**
Total Receipts	**3,701**	**3,494**	**TBC**	**TBC**	**TBC**	**TBC**	**TBC**

3.20 The generation of capital receipts will be driven in part by the Asset Management Strategy, where the Council proposes a programme of proactive disposal of assets that are not performing to an acceptable level or are identified as surplus to requirements. The estimates above include a target of £x.xm over the medium term, which represents a priority for asset management function.

3.21 Cross-ref to Capital Programme for more detail?

Flexible Use of Capital Receipts

3.22 In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their capital receipts from the sale of non-housing assets on revenue costs incurred to generate ongoing revenue savings, to reduce costs and / or transform service delivery in a way that reduces costs or demand for services in future years. This flexibility relates to expenditure which is properly incurred for the financial years 2016/17 to 2021/22.

3.23 Local authorities are only able to use capital receipts in the years in which this flexibility is offered. In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice. A flexible use of capital receipts policy will be presented to Council before the start of each financial year for which the flexibilities are proposed to be utilised, with the annual budget report.

3.24 TDBC and WSC previously agreed to utilise £3.135m (General Fund £1.975m, HRA £1.160m) of capital receipts income to support investment in transformation of services. As part of this strategy it is proposed to increase this option to £x.xm for the whole 6 year period to 2021/22. For the period up to 31 March 2019, £1.134m has been used to fund eligible costs, therefore the Council will commit to funding an additional £x.xm of eligible costs up to March 2022. Detail regarding the proposed use of this funding is included in the Capital Programme, which will need to be underwritten by other resources if insufficient income is received.

Table 6: Flexible Use of Capital Receipts

	2016/17-2018/19 £k	2019/20 Estimate £k	2020/21 Estimate £k	2021/22 Estimate £k
General Fund Flexible Use of Capital Receipts	732	360	180	1,000
HRA Flexible Use of Capital Receipts	402	TBC	TBC	TBC
Total Flexible Use of Capital Receipts	**1,134**	**TBC**	**TBC**	**TBC**

Revenue Contributions to Capital

3.25 The Council proposes to support the financing of part of the Capital Programme through direct contributions of revenue funding. Annual contributions are determined through the setting of Capital Programme priorities and affordability within the Revenue Budget. Revenue contributions are predominantly directed towards recurring annual investments, with the advantage of reducing debt financing costs. Revenue Contributions are factored into the Revenue MTFP and the Capital Programme financing plan, as summarised in Table 2 above.

4 Treasury Management and Borrowing Strategy

4.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing. The Council is typically cash rich in the short-term as revenue is earned before it is spent but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing need.

4.2 Due to previous spending and financing decisions within the Council's predecessor authorities, £92.5m of external borrowing was transferred to the Council on 1 April 2019, together with treasury investments totalling £42.4m.

4.3 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting and the Council, therefore, seeks to strike a balance between cheaper short-term loans (currently available at around 0.75%-1%) and long term fixed rate loans where the future cost is known but higher (currently 2%-3.3%).

4.4 Council's do not borrow for specific assets and cannot use local authority assets as security. Borrowing is undertaken to meet the capital financing requirement (less any short term use of temporary cash balances).

Public Works Loans Board (PWLB)

4.5 A common source of borrowing for local authorities is the Treasury, through the Debt Management Office, which took over the responsibilities of the previous Public Works Loans Board (although the term PWLB is still commonly used). There are a number of advantages to using the PWLB as a source of borrowing, such as

- Funds can be accessed quickly – usually within 2-3 days of notice
- It is simple to arrange with limited time and effort required
- The Council does not require a credit rating

- Borrowing is not linked to any specific asset, but can provide the resources need to meet the overall capital financing requirement.

4.6 The PWLB currently offers a discounted ‘certainty rate’ at 0.2% below its standard rates, triggered by the Council completing an annual return to Government. It also offers a discounted ‘infrastructure rate’ which is 0.4% below its standard rate, which is subject to a competitive bidding process.

4.7 In October, in response to the Treasury’s concern about growing total debt balances for local government, the PWLB standard and certainty rates were increased by 1% without notice. As a consequence the Council is more likely to explore alternative sources of long term finance such as issuing bonds to the capital markets (typically pension funds and insurance companies).

Total Debt Position

4.8 Projected levels of the Council’s total outstanding debt are shown below, compared with the CFR (as detailed above). Statutory guidance is that actual debt should remain below the CFR, except in the short-term. As can be seen from the Table the Council expects to comply with this in the medium term.

Table 7: Prudential Indicator – Gross Debt and the CFR

	2018/19 Actual £k	2019/20 Budget £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k
GF Debt	10,000	0	50,000	100,000	100,000	100,000	100,000
HRA Debt	82,500	82,500	79,000	75,500	70,500	65,500	58,500
Total Debt	**92,500**	**82,500**	**129,000**	**175,500**	**170,500**	**165,500**	**158,500**
General Fund CFR	20,455	27,500	78,281	127,834	127,328	126,823	126,318
HRA CFR	103,028	101,207	107,238	TBC	TBC	TBC	TBC
Total CFR	**123,483**	**128,707**	**185,519**	**TBC**	**TBC**	**TBC**	**TBC**

4.9 Insert further commentary about total debt position?

Liability Benchmark

4.10 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £x.xm at each year-end. This benchmark is currently £x.xm and is forecast to rise/fall to £x.xm over the next five years.

Table 8: Actual Borrowing and the Liability Benchmark

	2018/19 Actual £k	2019/20 Budget £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k
Outstanding borrowing	92,500	82,500	129,000	175,500	170,500	165,500	158,500
CFR	123,483	128,707	185,519	TBC	TBC	TBC	TBC

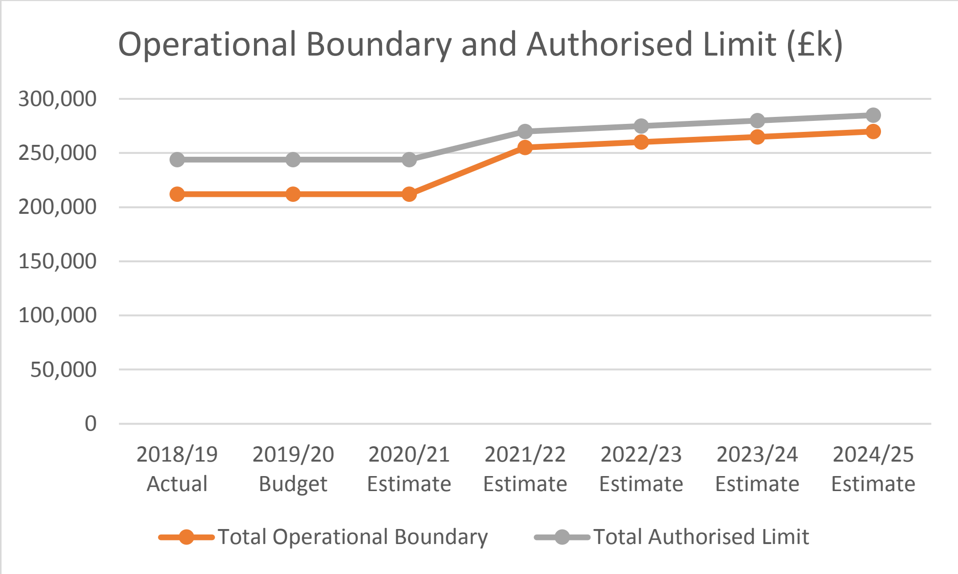
4.11 The table shows that the Council expects to remain borrowed above its liability benchmark. This is because a deliberate decision has been made to borrow additional sums for explain why (clarify with Arlingclose?). Further detail on the liability benchmark is included in the Treasury Management Strategy below.

5 Affordable Borrowing Limit

5.1 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach this limit. The Operational Boundary has been calculated based on the forecast CFR plus a tolerance for variations in spending plans during the year and possible volatility in availability of internal and external resources.

Table 9: Prudential Indicators – Authorised Limit and Operational Boundary for external debt

	2018/19 Actual £k	2019/20 Budget £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k
Operational Boundary:							
Borrowing	212,000	212,000	212,000	255,000	260,000	265,000	270,000
Leases							
Total Operational Boundary	**212,000**	**212,000**	**212,000**	**255,000**	**260,000**	**265,000**	**270,000**
Authorised Limit:							
Borrowing	244,000	244,000	244,000	270,000	275,000	280,000	285,000
Leases							
Total Authorised Limit	**244,000**	**244,000**	**244,000**	**270,000**	**275,000**	**280,000**	**285,000**
Memo – Indicative Authorised limits for GF and HRA:							
General Fund	128,000	128,000	104,000	130,000	135,000	130,000	125,000
HRA	116,000	116,000	140,000	140,000	140,000	150,000	160,000



5.2 The total borrowing limit applies to the combined borrowing requirement for the General Fund and the Housing Revenue Account. As borrowing is managed on a pooled basis for cash flow purposes the above limits relate to the whole-Council position. However, indicative splits between the GF and HRA are included as a memorandum item although not specifically required for the prudential indicator.

5.3 Further details of existing borrowing can be found in the Treasury Management Strategy Statement.

6 Investment Strategy

6.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

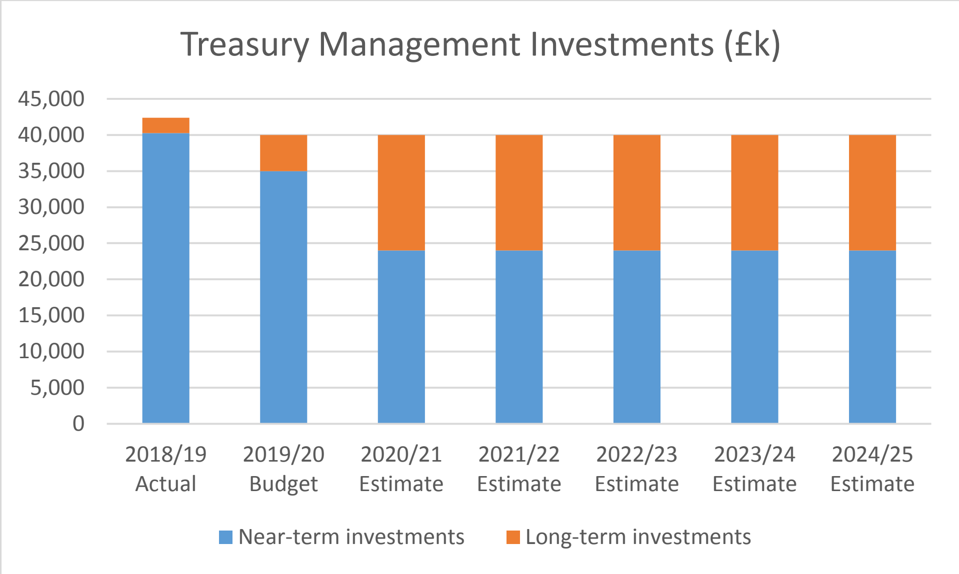
6.2 The Council's policy on treasury investments is to prioritise security and liquidity over yield, therefore to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high quality banks to minimise the risk of loss.

Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

6.3 As part of the Council's financial strategy, the aim is to evolve the balance within the investment portfolio to improve the net income available through treasury management to fund services, whilst maintaining a prudent balance between security, liquidity and yield. Subject to long term cash flow forecasts, it is anticipated there will be an increase in funds held in longer term investments. As these may expose a proportion of funds to a higher risk of capital value volatility, the S151 Officer proposes to mitigate this by holding a risk-assessed minimum balance of funds in a Treasury Risk Reserve. The assessment of adequate general reserves also incorporates an element of risk to investment income assumptions.

Table 10: Treasury Management Investments

	2018/19 Actual £k	2019/20 Budget £k	2020/21 Estimate £k	2021/22 Estimate £k	2022/23 Estimate £k	2023/24 Estimate £k	2024/25 Estimate £k
Near-term investments	40,267	35,000	35,000	35,000	35,000	35,000	35,000
Long-term investments	2,129	5,000	5,000	5,000	5,000	5,000	5,000
Total	**42,396**	**40,000**	**40,000**	**40,000**	**40,000**	**40,000**	**40,000**



6.4 Further details of existing treasury investments can be found in the Treasury Management Strategy below.

6.5 The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

6.6 Decisions on treasury management and borrowing are made daily and are, therefore, delegated to the s151 Officer and his staff who must act in line with the Treasury Management Strategy approved by Full Council. Reports on treasury management activities are presented to the Audit Governance and Standards Committee mid-year and at year-end.

7 Investment for Service Purposes

7.1 The Council makes investments to assist local public services, including making loans to local small businesses to promote economic growth. Examples of current loans are included in the Investment Strategy below.

7.2 In light of the public service objective, the Council is willing to take more risk than with treasury investments, however, it still plans for such investments to generate a positive investment return after all costs are covered.

7.3 Decisions on service investments are made by the relevant service manager in consultation with the s151 officer and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will, therefore, also be approved by Committee or through delegated powers as part of the capital programme.

7.4 Further details on service investments are contained in the Investment Strategy.

8 Commercial Investment Activities

8.1 Local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and they may wish to hold investments to facilitate this. When determining whether to acquire, the Council needs to recognise the contribution the asset will make. The contribution could be classified as direct service delivery and/or place-making, for example economic growth, business rates growth, responding to market failure or sustainability of certain asset classifications.

8.2 With central government financial support for local public services declining the Council intends to diversify into investments in commercial property mainly for financial gain, primarily in order to provide an alternative income stream to fund services locally but also where appropriate for capital growth.

8.3 On 1 April 2019, investment properties valued at £21.7m were transferred to SWTC from its predecessor Councils, which generated a net yield of £0.8m in 2018/19.

8.4 The Council has agreed to increase its commercial investment activity over the next 2-3 years to help mitigate the reduction in central government financial support and avoid cuts to local services. With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The priorities for the Council when acquiring property interests for investment purposes are detailed below and each property will be assessed on a case by case basis:

- Covenant strength: in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. The Council's primary reason and objective for this strategy is financial gain. The underlying principles of a Property Investment Strategy imply, assume and default to nothing taking higher priority than financial gain. It is however worth noting that the Council, as a public body, may not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values.

- Lease length: in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The Council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacement tenants at acceptable rental levels. Generally occupiers are moving away from 25 year leases which were more common back in the late twentieth century with 10 to 15 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant.
- Rate of Return: the rate of return from the property (for example through annual rental incomes) will need to be equivalent or better to the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also need to produce an annual return in excess of the cost of borrowing.
- Risk: rate of return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. For example, if a property is let at an attractive rent which would create a good return, it could still be risky if the tenant does not possess good covenant strength and could default at any time.
- Lease terms: The terms of leases vary and even those held on an "Institutionally acceptable basis" can be very different in nature particularly as such leases have developed over time. The Council is seeking to invest in modern leases with full repairing and insuring obligations on the Tenant and a full Service Charge

recovery to include any management fees where applicable. This will ensure a certain income/return to the Council.

- Growth: property has the potential for both revenue and capital growth. The Council will take into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income.
- Location: should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. Ideally the Council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. Preference should be given to properties located within the district or functional economic area. This does not prevent investment outside of district, subject to the appropriate justification and business case and correct governance procedure. Equally, geographical diversification is an important factor in spreading portfolio risk.
- Sector: information as to the sector of use of the property (e.g. office, retail, industrial, leisure) will assist in deciding on the risks associated with specific properties and the mix of sectors within the portfolio. Sector diversification is an important factor in spreading portfolio risk.
- Property age and specification: in the case of a let property, whilst the Council as an investor may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also affect the ability of the Council to let or sell the property in the future. It must also be taken into consideration in respect of the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant.

8.5 In summary the strategy for acquiring and managing the portfolio of investment property assets is therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing with at least more than five years remaining on an FRI lease.
- Minimise risk.
- Maximise rental income and minimise management costs to ensure the best return is generated, thus making a positive contribution to the MTFP.

- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas.
- Prioritise key towns in Somerset West and Taunton where this complements the portfolio risk balance, but pursue a geographical mix to spread risk.
- Pursue opportunities to increase returns and improve the investment value of commercial assets.

8.6 Environmental, Social and Governance (ESG) considerations…aim to acquire assets that do not conflict with the Councils principles and priorities around ethics, social value and the environment….

8.7 Decisions on commercial investments are delegated by the Council to the Investment Board in line with the criteria and limits approved by Full Council in December 2019. Property and most other commercial investments are also capital expenditure and purchases will therefore be reported as part of the capital programme. Performance of the investment portfolio will be reported to the Executive and also be incorporated within the overall financial monitoring reports throughout the year.

8.8 Further details on commercial investments and limits on their use are set out in the Investment Strategy.

9 Liabilities

9.1 In addition to capital debt as detailed above the Council is committed to making future payments to cover its pension deficit, which was valued at £105.7m on 1 April 2019. This balance is due to be paid over a 20 year period, and the deficit and annual contributions are revalued every three years. It has also set aside £3.5m to cover provisions for probable costs. The Council is also at risk of having to pay for contingent liabilities but has not put aside any money because payment is contingent on, as yet, unknown events occurring which may crystallise possible amounts due.

9.2 Decisions on incurring new discretionary liabilities are taken by senior managers and service managers in consultation with the s151 Officer. The risk of liabilities crystallising and requiring payment is monitored by the finance team and reported to the s151 officer.

9.3 Further details on liabilities and guarantees can be found in the 2018/19 Statements of Accounts for Taunton Deane Borough Council and West Somerset Council. These transferred to Somerset West and Taunton Council on 1 April 2019.

10 Revenue Budget Implications

10.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans/leases and capital debt repayment provisions are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 11: Prudential Indicator – Proportion of financing costs to net revenue stream

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Financing Costs (£m)	2.532	TBC	TBC	TBC	TBC	TBC	TBC
Proportion of Net Revenue Stream	6.77%	%	%	%	%	%	%

10.2 Financing costs for 2020/21 and subsequent years includes a £x.xm increase due to a change in the accounting for leases.

10.3 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 60 years into the future. The Strategic Finance Advisor and S151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable. All capital investment must be sustainable in the long term through revenue support by the Council or its partners. All capital investment decisions consider the revenue implications both in terms of servicing the finance and running costs of the new assets. The impact of the revenue implications is a significant factor in determining approval of projects. The use of capital resources has been fully taken into account in the production of the Council's MTFP.

11 Knowledge and Skills

11.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Strategic Finance Advisor and s151 Officer is a qualified accountant with many years' relevant experience. There are several other professionally qualified Finance Specialists within the Council's finance function, and the Council pays towards staff to study towards relevant qualifications including AAT and CCAB/CIMA. All officers involved in the treasury and investment management function have access to relevant technical guidance and training to enable them to acquire and maintain the appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.

11.2 The Council also employs qualified property specialists / surveyors to manage land and property assets, and contribute to key asset decisions.

11.3 Legal specialist advice is provided to the Council through the SHAPE legal partnership.

11.4 Where council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and various property consultants as required. This approach is considered to be cost effective and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

11.5 Those charged with governance (Members of the Audit Governance and Standards Committee and the Executive) recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Section 151 Officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

Investment Strategy

1 Introduction

1.1 The Council invests funds that it holds for three broad purposes:

i) because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),

ii) to support local public services by lending to or buying shares in other organisations (**service investments**), and

iii) to earn investment income (known as **commercial investments** where this is the main purpose)

1.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

2 Treasury Management Investments

2.1 The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £35m and £60m during the 2020/21 financial year.

2.2 The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

2.3 Full details of the Council's policies and its plan for 2020/21 for treasury management investments are covered in the treasury management strategy later in this document.

3 Service Investments – Loans

3.1 The Council lends money to local businesses, local charities, other local authority partnerships, and local residents to support local public services and priorities, and stimulate local economic growth. Currently the Council has loans invested with:

- Somerset County Cricket Club – delivering the new Pavilion and bringing international cricket to Somerset.
- Great Western Hotel – regenerating a derelict building, and creating employment and training
- Hestercombe House and Gardens – enabling loan for development feasibility work
- Somerset Waste Partnership – for waste vehicles, with added benefit of keeping waste contract costs down
- Residents – housing related mortgages
- Centre for Outdoor Activity and Community Hub (COACH) – purpose built community centre including a café, conference suite, changing rooms, boat store and home to 5 community sports clubs

3.2 The Council also has agreements in place to provide loans to the Onion Collective CIC for the Watchet East Quay redevelopment scheme, and to Great Western Railway for improvements to Taunton Station. The Council has also included provision in its Capital Programme to provide further loan finance to the Somerset Waste Partnership for new vehicles, depot works and bins / boxes to deliver Recycle More under the new waste contract.

3.3 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to minimise this risk and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 12: Loans for Service Purposes

Category of borrower	Actual as at 31/03/2019 Balance Owing £k	Loss Allowance £k	Net Figure In Accounts* £k	2020/21 Approved Limit £k
Businesses	1,565	-31	1,534	TBC
Charities / Community Interest Company	39	-1	38	TBC
Local authorities	1,017	0	1,017	TBC
Residents	0	0	0	TBC
Total	**2,621**	**-32**	**2,589**	**TBC**

*The figures for the year ended 31 March 2019 are consolidated from TDBC and WSC Accounts.

3.4 Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Councils statement of accounts will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.5 The Council assesses the risk of loss before entering into and whilst holding service loans by working up a robust business case and applying due diligence to all requests for service loans, and proportionate monitoring of credit risk of borrowers. For example, with loans to key businesses the Council's finance specialist team (qualified accountants) will review financial statements and service officers will maintain communication with the borrower in order that emerging risks are identified promptly. The Council will use credit rating information where available, and will use external specialist advisors if appropriate.

4 Service Investments – Shares

4.1 The Council does not currently hold any direct investment in the shares of subsidiaries, its suppliers or local businesses. As part of the Council's commercialisation agenda, the Council may explore opportunities to establish wholly-owned or partly-owned trading companies. In any such case, appropriate business cases, due diligence, risk assessment and governance proposals will be developed for consideration of Full Council. In addition, relevant provisions would be added to the Investment Strategy including the expected contribution to the Council's strategies and priorities, and the security and liquidity of investments.

5 Commercial Investments – Property

5.1 The Council invests in a diverse investment property portfolio both locally and nationally with the intention of generating surplus income that will be spent on local public services delivered within the district. This is an essential response to significant reductions in government funding over recent years, in order to meet service delivery objectives and the place making role of the Council, and avoid service cuts. The council plans to increase its investment by up to £100m over the next 2-3 years.

5.2 The Council holds a number of assets that were initially acquired for service purposes such as benefitting the local economy but have since been reclassified as investment properties. These are now established and the main purpose for holding the assets is for rental income. The following table summarises the investment properties transferred to the Council on 1 April 2019 from TDBC and WSC.

Table 13: Property held for investment purposes

	Actual Purchase cost £k	31 March 2019 (Actual)		31 March 2020 (Expected)	
		Valuation Gains or (-) losses £k	Value in accounts £k	Valuation Gains or (-) losses £k	Value in accounts £k
Thales Site, Lisieux Way, Taunton	TBC	TBC	**1,608**	TBC	TBC
Land used for Scrap Yard, Priory Way, Taunton	TBC	TBC	**591**	TBC	TBC
Site for Victoria Gate Surgery adjacent to Victoria Gate Car Park	TBC	TBC	**168**	TBC	TBC

	Actual Purchase cost £k	31 March 2019 (Actual)		31 March 2020 (Expected)	
		Valuation Gains or (-) losses £k	Value in accounts £k	Valuation Gains or (-) losses £k	Value in accounts £k
37/37a South Street Wellington & Scotts Lane Garages	TBC	TBC	**117**	TBC	TBC
Visitor Centre (part) The Market House, The Parade, Taunton	TBC	TBC	**1,626**	TBC	TBC
Goodland Gardens, Taunton The Shed Café	TBC	TBC	**110**	TBC	TBC
Blackdown Business Park, Wellington (4 Units)	TBC	TBC	**1,333**	TBC	TBC
Ex Taunton Livestock Market, Priory Bridge Road, Taunton	TBC	TBC	**12,553**	TBC	TBC
Development Land at 3 Canal Road	TBC	TBC	**480**	TBC	TBC
Dulverton Exmoor House Caravan Site	TBC	TBC	**145**	TBC	TBC
Land Brunel Way, Minehead (Wessex Water)	TBC	TBC	**181**	TBC	TBC
Jubilee Gardens Café, Minehead	TBC	TBC	**212**	TBC	TBC
The Arcade, Sea Front, Minehead	TBC	TBC	**314**	TBC	TBC
Channel Training Centre, Minehead	TBC	TBC	**130**	TBC	TBC

	Actual Purchase cost £k	31 March 2019 (Actual)		31 March 2020 (Expected)	
		Valuation Gains or (-) losses £k	Value in accounts £k	Valuation Gains or (-) losses £k	Value in accounts £k
Roughmoor Enterprise Centre, Williton	TBC	TBC	**1,399**	TBC	TBC
Barnsclose Industrial Site, Dulverton	TBC	TBC	**191**	TBC	TBC
All Others (Values under £100k)	TBC	TBC	**513**	TBC	TBC
Totals			**21,671**		

<Insert graph showing portfolio by sector or property, and graph comparing costs and value>

5.3 In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. The Council also recognises that asset values may increase and decrease over time due to market volatility, and takes a long term perspective with the assumption that capital values are likely to hold or grow over the life of the asset.

5.4 *Where value in accounts is at or above purchase cost:* A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2019/20 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

or

5.5 *Where value in accounts is below purchase cost:* The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss, and the Council is therefore taking mitigating actions to protect the capital invested. These actions include: planning to hold the assets for the long term; maintaining assets to appropriate quality; mitigating risk of realised losses through maintaining adequate funds in an Investment Risk Reserve, and reducing capital borrowing through its MRP policy.

5.6 The Council assesses the risk of loss before entering into and whilst holding property investments by undertaking appropriate due diligence including full valuation surveys and operating an asset management plan. The Council also considers strength of local market conditions to give confidence on future re-letting and also considers possible alternative uses if appropriate, and actively monitors the portfolio to ensure tenant obligations for maintaining assets are fulfilled.

5.7 Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council actively manages cash flow through its treasury management arrangements and plans to under-borrow against its CFR so that it can temporarily borrow at short notice if required.

6 Financial Guarantees

6.1 Although not strictly counted as investments, since no money has exchanged hands yet, financial guarantees carry similar risks to the Council and are included here for completeness.

6.2 The following guarantees were transferred to the Council from TDBC and WSC on 1 April 2019, as reported in the TDBC and WSC Statement of Accounts for 2018/19:

- Greenwich Leisure Limited Pension Liability £x.xm
- South West Audit Partnership Limited Pension Liability £0.268m (as at 31 March 2019)
- Clanville Housing Scheme

7 Proportionality

7.1 The Council currently has a low dependency on investment property income, but with increased investment the Council plans to become dependent on income generating investment activity to achieve a balanced revenue budget. Table 14 below shows the extent to which the expenditure planned to meet the service delivery objectives and place making role of the Council is dependent on achieving the expected net income from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net income, the Council's contingency plans for continuing to provide these services including holding adequate funds in an earmarked Investment Risk Reserve as well as carrying adequate General Reserves. Budget estimates are also set using prudent assumptions about net income from the portfolio including an allowance for voids / non-collection.

Table 14: Proportionality of Investments

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Gross Service Expenditure	14,842,723	14,752,279	14,698,828	14,137,146	14,671,436	15,241,866	15,938,659
Investment Income	642,000	642,000	1,775,000	7,100,000	7,100,000	7,100,000	7,100,000
Proportion	4.33%	4.35%	12.08%	50.22%	48.39%	46.58%	44.55%

7.2 Investment income shown in the above table is the gross income included in the budget estimates, disregarding asset management and capital financing costs.

8 Borrowing In Advance of Need

8.1 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council has chosen not to follow this guidance and plans to borrow for this purpose because generating investment income is now essential to respond to the large scale reductions in grant funding from Government. The Council (and its predecessors) has already sought to mitigate this reduction through service cost reductions, combining into a single workforce followed by the creation of the single new council entity, and driving further efficiency by transforming how we work and effectively managing demand for services. Increasing income is also part of the strategy to mitigate the significant funding reductions.

9 Capacity, Skills and Culture

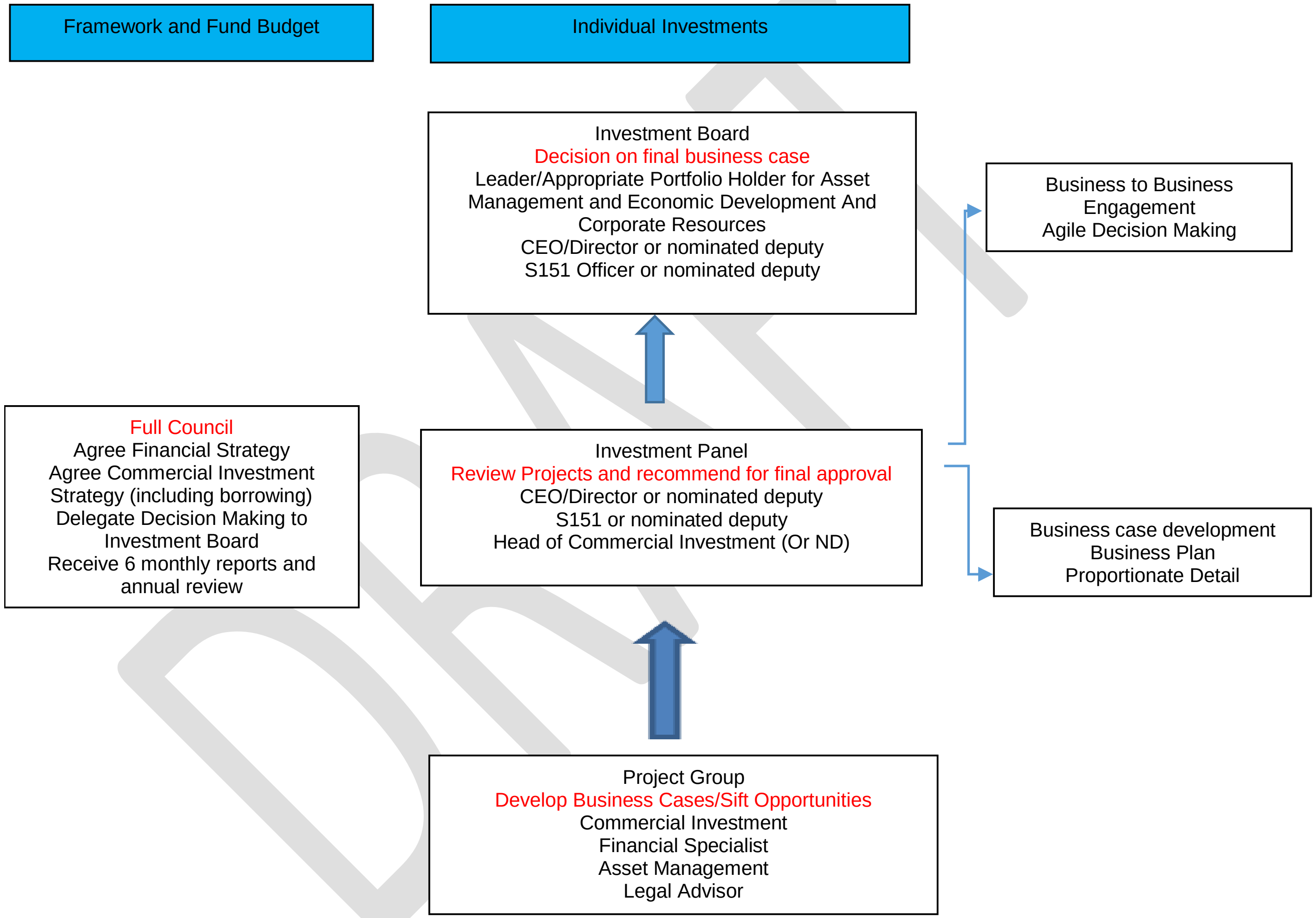
9.1 Officers involved in the investment making decision process are governed by internal procedures and processes and external statutory guidance in the form of the CIPFA Treasury Management Code and MHCLG Investment guidance. Internally limits are set in the annual Treasury Management Strategy Statement and the overriding Treasury Management Practices. The Council team dealing with investment assessments and management are professionally qualified and experienced in their field of property, finance and legal, with access to training as required. Specialist advice will also be bought in for non-traditional property investments as required.

9.2 Members on the Investment Board are responsible for the commercial and finance portfolios, and will have access to relevant commercial property training for example as provided by the LGA or CIPFA as well as being advised by professional specialists.

9.3 The Commercial Investment function will lead on business case development and engagement with the market, including negotiations for acquisitions and disposals, operating within parameters set by Council within the approved commercial strategy. The team is guided by the Strategic Finance Advisor and S151 Officer and other finance specialists on the prudential framework and guidance within which the Council operates.

9.4 The Council recognises that the governance arrangements for building and managing a commercial investment property portfolio needs to be agile, and appropriately resourced to enable opportunities to be assessed and investment decisions to be made quickly. Appropriate time is also allowed between offer/acceptance and completion to enable full due diligence and legal agreements to be finalised. Full Council is responsible for agreeing the strategy and total fund value, with delegated authority given to the Investment Board to approve individual transactions within the portfolio. The Board consists of the Leader and two Portfolio Holders, the Chief Executive, and S151 Officer. The Board is advised by an Investment Panel that reviews projects and recommends for approval, with individual opportunities assessed by a Project Group consisting of key specialists.

Chart – Investment Governance Structure (update)



10 Investment Indicators

10.1 The Council has set the following quantitative indicators to allow elected measures and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total investment exposure:

10.2 This indicator shows the Council's total exposure to potential investment losses. It includes amounts the Council is contractually committed to lend but have yet to draw down and guarantees the Council has issued.

Table 15: Total Investment Exposure

	Actual 1/4/2019 £k	Forecast 31/3/2020 £k	Forecast 31/3/2021 £k	Forecast 31/3/2022 £k	Forecast 31/3/2023 £k
Treasury Management Investments – Strategic Funds	10,000	16,000	16,000	16,000	16,000
Treasury Management Investments – Other	32,396	24,000	24,000	24,000	24,000
Service Investments – Loans	2,676	2,198	TBC	TBC	TBC
Commercial Investment – Property	0	50,000	50,000	0	0
Total Investments	**45,072**	**92,198**	**TBC**	**TBC**	**TBC**
Commitments to Lend	7,500	4,077	923	TBC	TBC
Guarantees Issued on Pension Liabilities	268	TBC	TBC	TBC	TBC
Total Commitments and Guarantees	**7,768**	**TBC**	**TBC**	**TBC**	**TBC**
Total Exposure	**52,840**	**TBC**	**TBC**	**TBC**	**TBC**

10.3 <Insert narrative to summarise 'the story' for the above table>

How investments are funded:

10.4 Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, it is difficult to comply with this guidance.

However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of need.

Table 16: Investments funded by Borrowing

	Actual 1/4/2019 £k	Forecast 31/3/2020 £k	Forecast 31/3/2021 £k	Forecast 31/3/2022 £k	Forecast 31/3/2023 £k
Service Investments – Loans	2,676	2,198	TBC	TBC	TBC
Commercial Investment – Property	0	50,000	50,000	0	0
Commitments to Lend	7,500	4,077	923	TBC	TBC
Total Funded by Borrowing	**10,176**	**56,275**	**TBC**	**TBC**	**TBC**

Rate of return received:

10.5 This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 17: Investment Net Rate of Return

	Actual 1/4/2019 £k	Forecast 31/3/2020 £k	Forecast 31/3/2021 £k	Forecast 31/3/2022 £k	Forecast 31/3/2023 £k
Service Investments – Loans	TBC	TBC	TBC	TBC	TBC
Commercial Investment – Property	0	TBC	TBC	TBC	TBC
Commitments to Lend	0	TBC	TBC	TBC	TBC
Total Funded by Borrowing	**TBC**	**TBC**	**TBC**	**TBC**	**TBC**

Other investment indicators:

10.6 The Government's investment guidance suggests authorities should consider a range of other quantitative indicators to show risks and opportunities in respect of investment and borrowing. The table below summarises indicators proposed for this Council.

Table 18: Other investment indicators

	Actual 1/4/2019 £k	Forecast 31/3/2020 £k	Forecast 31/3/2021 £k	Forecast 31/3/2022 £k	Forecast 31/3/2023 £k
Commercial Income to Net Service Expenditure	TBC	TBC	TBC	TBC	TBC
Investment cover ratio	TBC	TBC	TBC	TBC	TBC
Loan to value ratio	TBC	TBC	TBC	TBC	TBC

10.7 Commercial Income to Net Service Expenditure: Indicates dependence on commercial income to deliver core services.

10.8 Investment cover ratio: The total net income from commercial property investment compared to the interest expense relative to investment properties funded by borrowing.

10.9 Loan to value ratio: The amount of debt compared to the total assets value on the Council's balance sheet.

Treasury Management Strategy

1 Introduction

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments and the associated risks. The Council has borrowed and invested substantial sums of money and is, therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of finical risk are, therefore, central to the Council's prudent financial management.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3 Investments held for service purposes and for commercial income generation are considered in the Investment Strategy above.

2 External Context

2.1 The treasury strategy appropriately considers the wider economic picture. The Council's treasury advisor – Arlingclose – has provided a summary commentary on this wider context and their own interest rate forecasts, which is provided in Appendix A.

3 Local Context

3.1 The Council's predecessor Council's transferred their investment and borrowing balances to Somerset West and Taunton Council on 1 April 2019. On 16 December 2019, the Council held £82.5m of borrowing and £46.7m of treasury investments. These balances are summarised below.

Table 19: Existing Debt and Investment Position

	1/4/2019 TDBC Balances Transferred £k	1/4/2019 WSC Balances Transferred £k	1/4/2019 SWTC Opening Balance £k	16/12/2019 SWTC Actual Portfolio £k
External Borrowing:				
Public Works Loan Board (PWLB)	-79,500	0	-79,500	-79,500
Barclays	-3,000	0	-3,000	-3,000
Portsmouth City Council	-10,000	0	-10,000	0
Total External Borrowing	**-92,500**	**0**	**-92,500**	**-82,500**
Treasury Investments:				
Banks and building societies (unsecured)	1,800	116	1,916	2,207
Covered bonds (secured)	2,128	0	2,128	2,062
Government including local authorities	0	12,042	12,042	7,540
Fixed Term Deposits	3,000	0	3,000	2,000
Money Market Funds	3,000	1,310	4,310	15,960
Corporate Funds and Multi Asset Investments	16,000	0	16,000	16,975
Certificates of Deposit	3,000	0	3,000	0
Total Treasury Investments	**28,928**	**13,468**	**42,396**	**46,744**
Net Debt	**-63,572**	**13,468**	**-50,104**	**-35,756**

3.2 Forecast changes in these sums are shown in the balance sheet analysis in Table 20 below.

Table 20: Balance Sheet Summary and Forecast

	1/4/2019 Actual £k	31/3/2020 Estimate £k	31/3/2021 Estimate £k	31/3/2022 Estimate £k	31/3/2023 Estimate £k	31/3/2024 Estimate £k
CFR – General Fund	20,455	27,500	78,281	127,834	127,328	126,823
CFR – HRA	103,029	101,207	107,238	TBC	TBC	TBC
CFR – Investments	0	0	0	0	0	0
Total CFR	123,485	128,707	185,519	TBC	TBC	TBC
Less: External Borrowing	-92,500	-82,500	-129,000	-175,500	-170,500	-165,500
Less: Other debt liabilities (leases)	0	0	0	0	0	0
Internal Borrowing	30,984	46,207	56,519	TBC	TBC	TBC
Less: Usable reserves	-50,438	-45,000	-40,000	-40,000	-40,000	-40,000
Less: Working capital surplus (-) / deficit	-18,153	-20,000	-24,300	-24,300	-24,300	-24,300
Treasury Investments (-) / New Borrowing	**-37,607**	**-23,093**	**-7,781**	**TBC**	**TBC**	**TBC**

3.3 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 investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.4 The Council has an increasing CFR due to the capital programme including anticipated investment property acquisition. The trend of increased expenditure indicates it will be required to borrow up to £xm over the forecast period.

3.5 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 over the medium term.

Liability benchmark:

3.6 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 20 above, but that cash and investment balances are kept to a minimum level of £10.0m at each year-end to maintain sufficient liquidity but minimise credit risk. This value is based on the advice received from Arlingclose, the Council's treasury management advisors.

Table 21: Liability benchmark

	1/4/2019 Actual £k	31/3/2020 Estimate £k	31/3/2021 Estimate £k	31/3/2022 Estimate £k	31/3/2023 Estimate £k	31/3/2024 Estimate £k
Total CFR	123,485	128,707	185,519	TBC	TBC	TBC
Less: Usable reserves	-50,438	-45,000	-40,000	-40,000	-40,000	-40,000
Less: Working capital	-18,153	-10,000	-24,300	-24,300	-24,300	-24,300
Plus: Minimum investments	10,000	30,000	30,000	30,000	30,000	30,000
Liability benchmark	**64,894**	**89,407**	**151,219**	**TBC**	**TBC**	**TBC**

3.7 Following on from the medium-term forecasts in table 21 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £x.xm a year, minimum revenue provision on new capital expenditure based on a X year weighted average asset life and income, expenditure and reserves all increasing by inflation of 2% a year. This is shown in the chart below.

<Insert liability benchmark chart>

3.8 *Explain actual borrowing vs liability benchmark over time…*

4 Borrowing Strategy

4.1 The Council currently holds £82.5m of loans (as at 16 December 2019), compared to £92.5m on 1 April 2019, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 20 shows that the Council expects to borrow up to £100.0m in 2020/21. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £314.0m.

4.2 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.

4.3 Given the significant cuts to public expenditure and in particular 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.

4.4 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the 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.

4.5 The Council (and its predecessors) has previously raised the majority of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Council will now explore alternative options to borrow any long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

4.6 Alternatively, the Council may arrange 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 (although forward loan interest rates will usually factor in an allowance for interest rate risk during the intervening period).

4.7 Additionally, the Council may borrow further short term loans to cover unplanned cash flow shortages.

4.8 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
- Any other UK public sector body
- UK public and private pension funds (except Somerset County Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.9 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:

- Leasing
- Hire purchase
- Private finance initiative
- Sale and leaseback

4.10 Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

4.11 Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

4.12 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.

5 Treasury Investment Strategy

5.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the first six months of 2019/20 to 30th September 2019, the Council's investment balance has ranged between £38.3m and £60.4m, and similar levels are expected to be maintained in the forthcoming year.

5.2 The CIPFA Code requires 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.

5.3 If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

5.4 Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2020/21. This is especially the case for the estimated £16m that is available for longer-term investment. A proportion of the Council's surplus cash is currently invested in short-term unsecured bank deposits, money market funds and other local authorities. This diversification will represent a continuation of the new strategy adopted in earlier years, with an enhanced opportunity to utilise strategic investment pooled funds as the resources of the two predecessor Councils are combined.

5.5 Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's 'business model' for managing them. The Council aims to achieve value for money from its internally managed treasury investments by a business model of collecting the contractual cash flows and, therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties

5.6 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.

Table 22: 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	£5m 5 years	£9m 20 years	£9m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£9m 10 years	£9m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£9m 5 years	£9m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£9m 4 years	£9m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£9m 3 years	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£9m 2 years	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£9m 13 months	£5m 5 years	£5m 13 months	£5m 5 years
None	£1m 6 months	n/a	£9m 25 years	£50k 5 years	£5m 5 years
Pooled funds and real estate investment trusts	Up to £7m each fund or trust				

5.7 **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. 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.

5.8 **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.

5.9 **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 generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.10 **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 either following an external credit assessment or to a maximum of £2m per company as part of a diversified pool in order to spread the risk widely.

5.11 **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

5.12 **Pooled funds:** Shares or units 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.

5.13 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.

5.14 **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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

5.15 **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 £500,000 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.

5.16 **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

5.17 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.

5.18 **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, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.19 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

5.20 The Council's revenue reserves available to cover investment losses are forecast to be £xm on 31 March 2020. In order that no more than xx% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £9m. 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 23: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£9m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£9m per group
Any group of pooled funds under the same management	£21m per manager
Negotiable instruments held in a broker's nominee account	£21m per broker
Foreign countries	£9m per country
Registered providers and registered social landlords	£21m in total
Unsecured investments with building societies	£9m in total
Loans to unrated corporates	£9m in total
Money market funds	£42m in total
Real estate investment trusts	£21m in total

5.21 **Liquidity management**: The Council uses an in-house spreadsheet based cash flow forecasting model 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.

6 Treasury Management Indicators

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

Security

6.2 The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating 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.

Credit risk indicator	Target
Portfolio average credit rating	A-

Liquidity

6.3 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.

Liquidity risk indicator	Target
Total cash available within 3 months	TBC

Interest Rate Exposures

6.4 This indicator is set to control the Council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	TBC
Upper limit on one-year revenue impact of a 1% fall in interest rates	TBC

Maturity Structure of Borrowing

6.5 This indicator is set to control the Council's exposure to refinancing risk. The limits set for each category within this indicator is wide since the indicator is only to cover the risk of replacement loans being unavailable, not interest rate risk. 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. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	**Upper limit**	**Lower limit**
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Principal Sums Invested For Periods Longer Than a Year

6.6 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 will be:

Price risk indicator	**2020/21**	**2021/22**	**2022/23**
Limit on principal invested beyond year end	TBC	TBC	TBC

7 Related Matters

7.1 **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).

7.2 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.

7.3 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.

7.4 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

7.5 Housing Revenue Account: On 1 April 2012, the Council's predecessor (TDBC) notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

7.6 Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the S151 Officer believes this to be the most appropriate status.

8 Financial Implications

8.1 The budget for investment income and debt interest in 2020/21 is summarised as follows:

Table 24: Interest Income and Costs Budget Estimates

Price risk indicator	2020/21 Investment Income £k	2020/21 Average Interest Rate %	2020/21 Interest Costs £k	2020/21 Average Interest Rate %	2020/21 Net Income or Costs £k
General Fund	-876	TBC	215	TBC	-661
Housing Revenue Account	-62	TBC	123	TBC	61
Total	-704	TBC	292	TBC	-412

8.2 If actual levels of investments and borrowing, or actual interest rates differ from those forecast, performance against budget will be correspondingly different. Significant variances will be identified in budget monitoring reports to the Senior Management Team and the Executive.

9 Other Options Considered

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer, having consulted the Portfolio Holder for Corporate Resources, 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
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

External Context – Commentary by Arlingclose (December 2019)

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21. The General Election has removed some uncertainty within the market, however following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The headline rate of UK Consumer Price Inflation remained the same in November 2019 at 1.5% year-on-year, the same as October 2019, however continuing to fall from highs of 2.1% in July and April 2019 as accommodation services and transport continued to contribute to a level of inflation below the BOE target of 2%. Labour market data continues to be positive. The ILO unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.9% in October 2019 and only likely to have a moderate impact on household spending.

Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the Bank of England target of 2%. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).

The fallout from the US-China trade war continues which, risks contributing to a slowdown in global economic activity in 2019. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however, this can change quickly. Slow growth in Europe, combined with changes in leadership at the ECB and IMF has led to a change of stance in 2019. Quantitative easing has continued and been extended.

Credit outlook: The recent Bank of England stress tests assessed all seven UK banking groups. The tests scenarios include deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis. Major Banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach; timeliness as the results are over 11 months of out date when they are published, being based on end-2018 balance sheets; ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups and; coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

The Bank of England will seek to address some of these issues in 2020, when Virgin Money/Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

Arlingclose Economic & Interest Rate Forecast November 2019

Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.

- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.

- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitionary period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.

- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.

- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.

- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.

- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

A summary of the forecast rates is included on the next page. Note:

- PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
- PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

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 The predecessor Councils (TDBC and WSC) both adopted an MRP calculation method which spread the total Capital Financing Requirement over the weighted average useful life of each Council's asset base on a straight line basis. The calculation took into consideration the materiality of each asset and its recorded remaining useful life. The weighted average was then applied to the class of asset then applied across the whole fixed asset base. That gave a robust basis to support the asset life applied to MRP calculations and be appropriate for audit scrutiny.

1.5 Following the creation of the Somerset West and Taunton Council on 1 April 2019, it is proposed to apply the same methodology for the opening balance General Fund CFR using the combined weighted average useful life of the consolidated asset base transferred to SWTC on 1 April. This is considered a prudent approach to charging for the legacy CFR transferred to SWTC from its predecessor Councils.

1.6 For capital expenditure incurred since 1 April 2019, the proposed methods for calculating MRP are as follows:

1.7 For Property Plant and Equipment (PPE) assets, MRP will be calculated over the weighted average useful life of each Council's asset base at the start of each financial year on a straight line basis.

1.8 For assets acquired by leases or the Private Finance, 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 grants and contributions to third parties MRP will be calculated on a straight-line basis over 25 years from the 1 April following the year in which the grants or contributions are incurred.

1.10 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 the principal repayments to reduce the capital financing requirement in respect of those loans. 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.

1.11 For Investment Properties, MRP will be calculated over 50 years, or over the professionally assessed useful life of the asset if lower than 50 years. MRP may be calculated using either annuity or straight-line basis.

1.12 For Housing Revenue Account capital expenditure, MRP will be charged on a straight-line over 60 years.

1.13 MRP is charged based on the opening balance CFR carried forward from the previous year. Therefore Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.

2 Capital Financing Requirement and MRP Estimates

2.1 Based on the Council's latest estimate of its capital financing requirement (CFR) on 31 March 2020, the budget estimate for MRP has been set as follows:

Capital Financing Requirement and MRP	31/03/2020 Estimated CFR £k	2020/21 Estimated MRP £k
Capital Expenditure before 1 April 2019	TBC	TBC
PPE Capital Expenditure since 1 April 2019	TBC	TBC
Leases	TBC	TBC
Loans to other bodies repaid in instalments	TBC	TBC
Investment Properties Capital Expenditure Since 1 April 2019	TBC	TBC
Voluntary overpayment or use of prior year overpayments	TBC	TBC
Total General Fund	TBC	TBC
Assets in the Housing Revenue Account	TBC	TBC
Total Housing Revenue Account	TBC	TBC
Total	TBC	TBC

3 MRP Overpayments

3.1 Overpayments: In earlier years, the Council has made no voluntary overpayments of MRP that are available to reduce the revenue charges in later years. It is not planned to make an overpayment in 2020/21, however the S151 Officer may determine such an overpayment during the year and report this through the Outturn Report.

MRP Overpayments	£k
Actual balance 1 April 2019	0
Approved overpayment 2019/20	0
Expected balance 31 March 2020	0
Planned overpayment 2020/21	0
Forecast Overpayments Balance 31 March 2021	0

Report Number: SWT 7/20

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 13 January 2020

Risk Management Strategy

This matter is the responsibility of Executive Councillor Member for Corporate Resources, Cllr Ross Henley

Report Author: Amy Tregellas, Governance Manager

1 Executive Summary / Purpose of the Report

1.1 To present the Committee with the Risk and Opportunity Management Strategy for approval.

2 Recommendations

2.1 The Committee approve the Risk and Opportunity Management Strategy (Appendix A)

3 Risk Assessment

3.1 Failure to take advantage of opportunities and mitigate business risks is a major risk to the Council and could impact on the Council's ability to deliver its strategic objectives. Failure to regularly review and update the Risk and Opportunity Management Strategy could have an adverse impact on the Council's Annual Governance Statement

4 Background and Full details of the Report

4.1 The purpose of this report is to present the Audit, Governance and Standards Committee with the Council's Risk and Opportunity Management Strategy (attached as Appendix A) for consideration and approval.

4.2 Risk Management forms an integral part of the Annual Governance Statement which is concerned with demonstrating that the Council has adequate and effective internal control arrangements in place for dealing with key business risks.

4.3 Risk and Opportunity Management is not a separate initiative, but is the demonstration of good management practice. The Council has an obligation to provide assurance to Members and the Community that the principles of good governance, including Risk and Opportunity Management, are reflected in the activities of the Council. The Council also has a legal obligation to comply with the requirements placed upon it by the Accounts and Audit Regulations and the publication of an Annual Governance Statement.

4.4 Approval of the Risk and Opportunity Management Strategy will assist with the Council embedding Risk and Opportunity Management and demonstrating good Governance principles, and this Strategy will come before the Committee on an annual basis.

5 Links to Corporate Strategy

5.1 Having effective Risk and Opportunity Management arrangements in place is crucial for identifying risks and opportunities associated with delivering the Council's Corporate Strategy. It also forms a fundamental element of being a well-managed Council.

6 Finance / Resource Implications

6.1 Failure to mitigate risks or take advantage of opportunities could result in financial loss to the Council.

7 Legal Implications (if any)

7.1 Failure to mitigate risks could result in a number of legal implications for the Council

8 Climate and Sustainability Implications (if any)

8.1 None arising from this report

9 Safeguarding and/or Community Safety Implications (if any)

9.1 None arising from this report

10 Equality and Diversity Implications (if any)

10.1 None arising from this report

11 Social Value Implications (if any)

11.1 None arising from this report

12 Partnership Implications (if any)

12.1 None arising from this report

13 Health and Wellbeing Implications (if any)

13.1 None arising from this report

14 Asset Management Implications (if any)

14.1 None arising from this report

15 Data Protection Implications (if any)

15.1 None arising from this report

16 Consultation Implications (if any)

16.1 None arising from this report

Democratic Path:

- **Scrutiny / Corporate Governance or Audit Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

Reporting Frequency: Annually

List of Appendices (delete if not applicable)

Appendix A	Risk Management Strategy

Contact Officers

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Somerset West and Taunton Council
Risk and Opportunity Management Strategy

1.0 Background

1.1 This combined Risk and Opportunity Management Strategy details the Council's framework for managing business risk and opportunity. The Risk and Opportunity Management framework is the culture, processes and structures that are directed towards effective management of potential risks and opportunities that the council faces in delivering its objectives.

1.2 The definition or risk and risk management varies. ALARM (the Association of Local Authority Risk Managers) and the IIA (Institute of Internal Auditors) define Risk Management as follows:

ALARM
"Risk Management is the culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives".

IIA
"Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Risk Management is concerned with positive and negative aspects of risk. So as well as managing things that could have an adverse impact (downside risk) it also looks at potential benefits (upside risk)."

1.3 In organisations, Risk Management is central to good governance. Enterprise risk management (ERM) describes what happens when organisations put in place a structured, continuous process to identify, manage and respond to risk.

1.4 Developing and improving public services in the current challenging climate requires opportunities to be taken whilst managing the risks involved. Therefore Somerset West and Taunton Council's definition of Risk and Opportunity Management is:

"The planned and systematic approach to identify, evaluate and manage the risks to, and opportunities for, to achievement of objectives"

1.5 The overall process of managing risk and opportunity can be divided into:
- The identification and analysis of risks and opportunities
- Risk and opportunity management, which encompasses the planning, controlling and monitoring of the information derived from the risk and opportunity analysis.

2.0 Purpose, Aims and Objectives

2.1 The purpose of the strategy is to embed risk and opportunity management in the Authority by establishing a risk management framework, which provides:

- An efficient control environment
- The overt allocation of accountability for risk and opportunity management throughout the organisation
- A culture where officers and Members are able to be more creative and innovative in taking opportunities that benefit the Council and the District provided that there is clear analysis of the risks and a robust justification for the decision
- A well-established risk and opportunity assessment process which ensures that risks and opportunities are considered and managed as part of the decision making process
- Performance monitoring of risk and opportunity management activity
- Communications process to support risk and opportunity management
- A robust opinion for the Annual Governance Statement which comments of the adequacy of the Council's risk and opportunity management arrangements

2.2 The aim of the Somerset West and Taunton Council Risk and Opportunity Management Strategy is to adopt best practices in the identification and evaluation of risks and opportunities and the cost-effective control of risks to ensure that they are reduced to an acceptable level.

2.3 It is acknowledged that some risks will always exist and will never be eliminated. All employees must understand the nature of risk and accept responsibility for risks associated with their area of authority. The necessary support, assistance and commitment of senior management will be provided.

2.4 The risk and opportunity management objectives of the Council are to:

- Embed risk and opportunity management into the culture of the Council
- Fully incorporate risk and opportunity management as an integral part of corporate planning, business planning, project management and performance management
- Manage risk and opportunity in accordance with best practice and in particular in accordance with the requirements of the Annual Governance Statement
- Consider legal compliance as a minimum
- Prevent injury and damage and reduce the cost of risk
- Raise awareness of the need for risk and opportunity management

2.5 These objectives will be achieved by:

- Establishing a clear risk and opportunity management process that is communicated to all officers and Members
- Clearly define roles and responsibilities for risk and opportunity management
- Developing an action plan for embedding risk and opportunity management with tasks and milestones for monitoring progress against targets
- Providing risk and opportunity management training to officers and members

- Completing corporate and operational risk and opportunity management workshops to identify risks
- Conducting risk and opportunity management workshops to identify the risks and opportunities of any major projects
- Maintaining and reviewing a register of corporate, operational and project risks and opportunities and assigning ownership for each risk
- Ensuring that reports to the Executive, Scrutiny Committee, Audit, Governance and Standards Committee and Regulatory Committees (Planning and Licensing) include a risk and opportunity assessment
- Identifying risks and opportunities in relation to working in partnerships
- Ensuring that the Executive, Audit, Governance and Standards Committee and Scrutiny Committee receive quarterly reports on the key business risks and opportunities and takes action to ensure that business risks and opportunities are being actively managed

2.6 The following sections consider how the Council will implement the above objectives.

3.0 Roles and Responsibilities

3.1 The following groups and individuals have the following roles and responsibilities for risk and opportunity management within the Council.

3.2 The Audit, Governance and Standards Committee will approve this risk and opportunity management strategy and any subsequent revisions. They will also monitor the effective development and operation of risk and opportunity management within the Council by receiving quarterly progress reports on the Council’s key business risks and opportunities, takes appropriate action to ensure that they are being actively managed and will consider the adequacy of the Council’s risk and opportunity management arrangements as part of the Annual Governance Statement.

3.3 The Leadership Team is primarily responsible for setting the organisations risk appetite, identifying corporate strategic risks and opportunities, as well as being responsible for determining action on these risks and opportunities and delegating responsibility for the control of the risks and opportunities. The Leadership Team will also be responsible for monitoring the progress of managing risks and opportunities and will review quarterly reports which go to the Executive, Audit, Governance and Standard Committee and Scrutiny Committee.

3.4 The Executive will also monitor the effective development and operation of risk and opportunity management within the Council by receiving quarterly progress reports on the Council’s key business risks and opportunities through the performance and risk report.

3.5 The Scrutiny Committee will also receive quarterly progress reports on the risks and opportunities through the performance and risk report. Any concerns or issues will be reported to the Cabinet and/or the Audit, Governance and Standards Committee.

3.6 The Executive Member for Corporate Resources will:

- Communicate the importance of risk and opportunity management to other Members
- Act as a sounding board and provide a critical friend challenge to the risk and opportunity management process

3.7 Heads of Function/Service Managers will be responsible for:

- Leading the risk and opportunity management process within their services and ensuring that business plans include an annual assessment of key risks and opportunities
- Identifying and managing significant operational risks by carrying out risk assessments with their teams as and when this becomes appropriate i.e. if making a significant change to service or undertaking a project
- Developing actions to mitigate the risks identified, assigning responsibility for implementing controls and set realistic target dates for implementation
- Ensuring that all risks are on the corporate risk register
- Regularly reviewing risks associated with their service area(s) ensuring that the agreed actions and deadlines have been met
- Ensuring that any briefing papers/ reports that they produce to make changes to their services will consider the associated risks and opportunities of any proposed course of action

3.8 The Director for Internal Resources (or her nominated deputy) is responsible for providing assurance to the Council through monitoring the implementation and effectiveness of this risk and opportunity management strategy and for reviewing compliance with mitigating controls introduced by the Service Managers. The Director for Internal Resources (or her nominated deputy) will comment upon the effectiveness of the risk and opportunity management process in work undertaken to support the Annual Governance Statement. The Director for Internal Resources (or her nominated deputy) will also chair the Council's Health & Safety Committee to ensure that any risks arising from the work of this group will be incorporated into the Corporate Risk Register.

3.9 The Health and Safety Committee is responsible for reviewing the measures taken to ensure the health and safety of all those who work in and visit the Council or may be affected by its activities - ensuring that people are not exposed to risks and that the risks are mitigated effectively. Where concerns are raised these will be escalated to the Health and Safety Officer and Leadership Team for action.

3.10 All employees need to have an awareness of risk and opportunity management and are responsible for ensuring that they manage risk effectively in their jobs and report hazards and risks to their Head of Function/Service Manager.

3.11 Anything commercial investment wise will go to the Commercial Investment Board

4.0 Strategic, Operational and Project Risks

4.1 Broadly speaking risks can be divided into three categories:

- Strategic – risks which need to be taken into account in judgements about the medium to long term goals and objectives of the Council whilst at the same time considering the opportunities; and
- Operational – risks and opportunities which managers will encounter in the daily course of their work.
- Project - risks and opportunities which will be encountered during specific tasks/projects being undertaken

4.2 Strategic Risks

4.2.1 The management of strategic risks and opportunities is a core responsibility of the Leadership Team. Strategic risk and opportunity assessments should be factored in to corporate and service planning.

4.2.2 The major categories of strategic risk are:

- Political – associated with failure to deliver either local or central government policy. The Council could also potentially be at risk from the actions of other agencies, other Councils, partner organisations, etc.

- Economic – affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures as well as external factors affecting the economy as a whole.

- Social – relating to the effects of changes in demographic, residential or socioeconomic trends on the council's ability to deliver its objectives.

- Technological – associated with the capacity of the council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands.

- Data Protection/Information Security – this includes the consequences of data/information transfer between the Council and other Bodies i.e. Government Connect, Partnership working, data collection, processing of data and data storage, etc.

- Legislative – associated with current or potential changes in national or European Law.

- Health and Safety – This includes all aspects of Health & Safety as well as the Corporate Manslaughter legislation

- Human Resource – Aging workforce

- Environmental – relating to the environmental consequences of progressing the council's strategic objectives (e.g. in terms of climate change including energy efficiency, pollution, recycling, landfill requirements, emissions, etc).

- Climate Change - affecting the ability of the council to meet its commitments in respect of climate change and meeting climate change targets

- Competitive – affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver Value for Money.

- Customer/Citizen – associated with failure to meet the current and changing needs and expectations of customers and citizens.

- Partnership – associated with working in partnership or sharing services with another local authority or partner

- Reputation – associated with the potential for negative publicity, public perception or uncontrollable events which have an adverse impact on the Council's reputation

4.3 Operational Risks

4.3.1 Risks which managers and staff will encounter in the daily course of their work. These may be:

- Professional – associated with the particular nature of each profession (e.g. housing service concerns as to the welfare of tenants).

- Financial – associated with financial planning and control and the adequacy of insurance cover.

- Legal – related to possible breaches of legislation.

- Personal Safety – related to lone working and the potential to encounter aggressive or confrontational people whilst carrying out their duties.

- Physical – related to fire, security, accident prevention and health and safety (e.g. hazards/risk associated with buildings, vehicles, plant and equipment, etc).

- Contractual – associated with the failure of contractors to deliver services or products to the agreed cost and specification.

- Technological – relating to reliance on operational equipment and the potential for technological failure (e.g. IT systems or equipment and machinery)

4.4 Project Risks

4.4.1 Risks which will be encountered during specific tasks/projects being undertaken. These may be:

- People – associated with whether we have the right people with the right skills involved in the task/project. This also concerns getting buy in from staff at all levels of the organisation, Members and potentially external stakeholders

- Technical – associated with the Councils reliance on the software provider to deliver what has been agreed in the contract and that they provide support for dealing with any systems problems or issues

- Cost – associated with the potential for the project to go over budget if the people and technical matters are not delivered as per the Business Case and PID

- Time – ensure that the right amount of time is allocated to the project as well as sufficient contingency as slippage can cause to project delay/failure and this can also have an impact on cost and quality

- Quality – depending on what goes into the project will determine the quality of the output

4.5 Opportunities

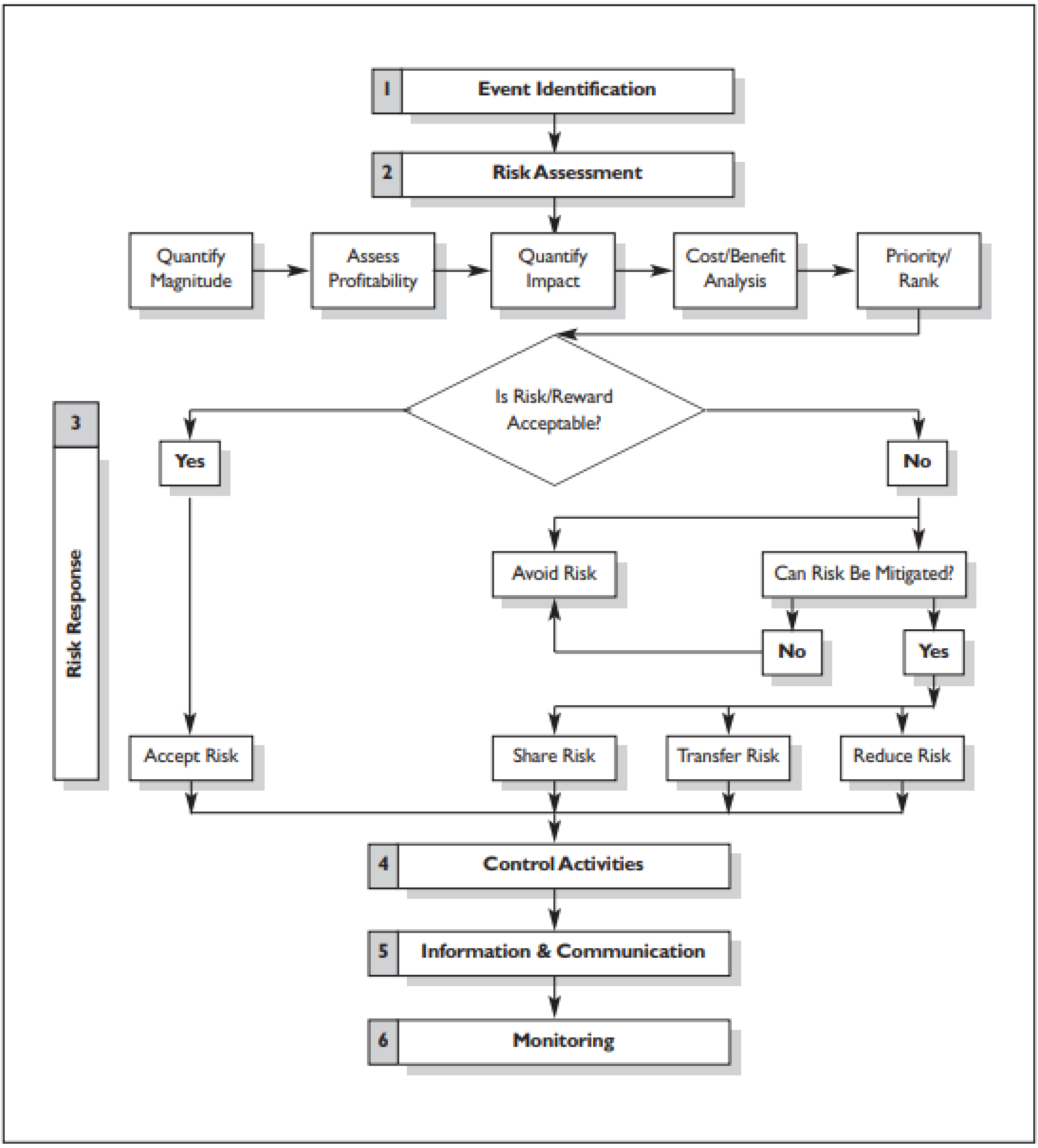
4.5.1 Opportunities are to be considered at the same time as the risks. Examples may include:

- Spend to save projects where the Council will benefit from reduced expenditure or increased income in the future
- Transformational change which will generate cost savings or an income stream
- Opportunities for great partnership working with our stakeholders or other local authorities
- Opportunities to streamline working processes
- Opportunities to boost the local economy
- Opportunities to deliver and improve housing within the District
- Opportunities to protect and enhance our environment and to reduce the impact of climate change
- Opportunities to make a difference to our communities and to empower them
- Delivery of the objectives in the Corporate Plan and Service Business Plans

4.6 The categories are neither prescriptive nor exhaustive. However, they should provide a framework for identifying and categorising a broad range of risks and opportunities for the Council as a whole, as well as service areas.

5.0 Risk Management Process

5.1 The four-step process below will cover all areas of risk and opportunity management including making strategic decisions, managing strategic, operational and project risks and opportunities.



Step 1 – Event Identification Risks and Opportunities

This is the identification of risks and opportunities and these include strategic, operational and project risks.

Step 2 – Risk Assessment

Once the risks and opportunities have been identified they then need to be assessed to consider the impact/severity and likelihood or any risks occurring and the potential benefits of any opportunities. Risk Impact/Severity The impact of the threat being realised is defined as:

	Score	Impact	Definition
Very Low	1	No impact	No notable impact identifiable
Low	2	Minor	Affects only one group of stakeholders, with minimum impact

	Score	Impact	Definition
			Organisationally localised, with position recoverable within the financial period. No external interest
Medium	3	Significant	Affects more than one group of stakeholders, with widespread but short-term impact. May attract the short-term attention of legislative/regulatory bodies
High	4	Major	Affects more than one group of stakeholders with widespread medium-term impact. Attracts the medium-term attention of legislative/regulatory bodies
Very High	5	Catastrophic	Medium to long term impact on performance and delivery of services. Affects all groups of stakeholders, with a long-term impact. National impact with the rapid intervention of legislative/regulatory bodies

Risk
<u>Likelihood</u>
The likelihood of the threat being realised is expressed on a scale of 1-5, using the definitions below:

	Score	Likelihood	Definition
Very Low	1	Rare	May occur on exceptional circumstances
Low	2	Possible	Risk may occur in the next 3 years
Medium	3	Likely	The risk is likely to occur more than once in the next 3 years
High	4	Almost Certain	The risk is likely to occur this year
Very High	5	Certain	The risk has occurred and will continue to do so without action being taken

The assessment process uses a 5x5 scoring matrix (see below) where the scores of impact x likelihood equal the total risk score. Risks scoring between 15 and 25 would be classed as high risk (red) with 25 being the biggest risk. Risks scoring between 5 and 12 would be classed as medium risk (amber) and risks scoring between 1 and 4 would be low risk (green). Risks that score 15 or above will be classed as the Council's key business risks and will be reported to the Audit, Governance and Standards Committee, Executive and Scrutiny Committee on a quarterly basis.

Impact/ Severity					
	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	1	2	3	4	5

Likelihood

Once analysed the risks need to be ranked and prioritised according to their likelihood and severity i.e. those scoring 25 will be at the top of the list and those scoring 1 will be at the bottom of the list.

The risks will then need to be considered in conjunction with any opportunities when making decisions.

Benefits of Opportunities

The assessment methods for determining the potential benefits of opportunities can include:

- Assessing the increased income/reduced expenditure from the innovation
- Quantifying the number of potential new customers
- Calculating the potential sales growth that could stem from capturing the opportunity
- Calculating the return on investment for a particular project and whether that is the level of return that the Council is looking for
- Considering the value added as a result of capitalising on the innovation e.g. the benefit to the community

<u>Step 3 – Risk Response</u>

This involves taking action to minimise the likelihood of a risk occurring and/or reducing the severity of the consequences should the risk occur. Actions need to be allocated to responsible officers along with a realistic target date for implementation.

Determine the best course of action for the Council. There are 5 key action strategies to managing risk:

Strategy	Action
Prevention	Terminate the risk*
Reduction	Treat the risk
Transference	Pass risk to a third party e.g. Insurance
Acceptance	Tolerate the risk
Contingency	Action plan implemented

* This can include carrying on the activity but modified so that the risk ends, or stopping the activity to end the risk.

Step 4 – Control Activities
Risk and Opportunity Management is dynamic and so the identification phase needs to be done continuously. It is also important to consider whether the nature of the risk or opportunity has changed over time – thereby completing the cycle.

Step 5 – Information and Communication
For the benefits of Risk and Opportunity Management to be realised, it is necessary for the process to be embedded in the culture and operations of the organisation.

Once the Strategy has been agreed it will be communicated to officers and Members.

The Director of Internal Operations (or her nominated deputy) will regularly raise awareness of Risk and Opportunity Management through the Officer and Member communications and through briefing sessions.

Step 6 - Monitoring
Progress in managing risks and opportunities will be monitored and reported so that losses are minimised and intended actions and opportunities are achieved.

Risk and Opportunity Management is an on-going process that should be constantly revisited and reviewed to ensure that new and emerging risks and opportunities are picked up and acted upon.

This Strategy will be reviewed and updated on an annual basis.