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Date: 20 January 2014
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To: All Members of the Corporate Audit Committee

Councillors: Will Sandry (Chair), Andrew Furse, Gerry Curran, Dave Laming, Barry Macrae and Brian Simmons

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Dear Member

Corporate Audit Committee: Tuesday, 4th February, 2014

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Tuesday, 4th February, 2014** at **5.30 pm** in the**. Kaposvar Room - Guildhall, Bath.**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

NOTES:

1. **Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Riverside Offices Keynsham (during normal office hours).

2. **Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

   The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

3. **Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

   Appendices to reports are available for inspection as follows:-

   Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

   For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

4. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.

5. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.

6. **Emergency Evacuation Procedure**

   When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

   Arrangements are in place for the safe evacuation of disabled people.

This Agenda and all accompanying reports are printed on recycled paper

Corporate Audit Committee - Tuesday, 4th February, 2014

at 5.30 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will draw attention to the emergency evacuation procedure as set out under Note 8.

2. ELECTION OF VICE-CHAIR

   To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

   (a) The agenda item number in which they have an interest to declare.

   (b) The nature of their interest.

   (c) Whether their interest is a **disclosable pecuniary interest** *or* an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

   Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

   The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

   To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES: 3 DECEMBER 2013 (Pages 7 - 12)

9. TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY 2014/15 (Pages 13 - 38)

10. RISK MANAGEMENT UPDATE (Pages 39 - 58)

11. ANNUAL GOVERNANCE REVIEW UPDATE (Pages 59 - 64)

12. EXTERNAL AUDIT UPDATE (Pages 65 - 98)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

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BATH AND NORTH EAST SOMERSET COUNCIL

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 3rd December, 2013, 5.30 pm

Councillors: Andrew Furse (Chair), Gerry Curran, Dave Laming, Barry Macrae and Brian Simmons
Independent Member: John Barker
Officers in attendance: Tim Richens (Divisional Director- Business Support), Jeff Wring (Divisional Director, Risk and Assurance) and Andy Cox (Group Manager (Audit/Risk))
Guests in attendance: Chris Hackett (Grant Thornton)

40 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

41 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was not required on this occasion.

42 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from the Chair, Cllr Will Sandry. In his absence Cllr Andy Furse chaired the meeting.

43 DECLARATIONS OF INTEREST

There were none.

44 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

45 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

46 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

47 MINUTES: 23RD SEPTEMBER 2013

These were confirmed as a true record and signed by the Chair.

48 TREASURY MANAGEMENT SIX MONTH UPDATE REPORT

The Divisional Director – Business Support presented the report. He said this was a regular six-monthly report, which stated the position as at the end of September. Returns on the Council's cash had been at an average of 0.49%, reflecting current low market rates. The restructuring of the Council's Public Works Loan Board debt portfolio had been implemented utilising the Council's cash flow. £50m of borrowing was rescheduled during the second quarter of 2013/14. It was anticipated that there would be a saving of £1.1m in debt costs. If funds had to be re-borrowed, this would be at very much lower rates of interest. The Council continued to invest only in higher-rated institutions and did not invest in the Eurozone.

A Member asked why the prudential borrowing limit was not reduced, if the Council's projected borrowing by the end of 2013/14 was lower than previously expected. The Divisional Director – Business Support replied that the prudential limit was set at the level that was required to finance capital expenditure. At some point the Council would need to borrow £200m; if there was a sudden change in market conditions, the Council would be able to borrow the maximum amount allowed in the budget. He agreed, however, that the operational limit did need to be revisited, because the Council now needed to borrow less.

A Member asked about the impact of Waitrose's decision not to occupy a site in the new Keynsham development, but instead to take over the existing Co-op store in Keynsham. The Divisional Director – Business Support said that he did not know what progress there had been in securing an alternative tenant; there might be some impact on the financial model for the new development, but this was not clear at the moment.

The Chair asked whether the Council had any exposure to Co-op Bank. The Divisional Director – Business Support replied in the negative. The Council's main bank was Natwest, and as far as investment was concerned, the Co-op had been below the Council's lower credit risk limit for some time.

A Member asked whether the banking market was as volatile as media reports suggested. The Divisional Director – Business Support replied that the Council's relied on its treasury advisors, Arlingclose, for credit ratings and intelligence on the banking sector. Arlingclose were ahead of the game and had warned local authorities about Co-op bank some time ago.

RESOLVED

1. To note the Treasury Management Report to 30th September 2013.

2. To note the Treasury Management Indicators to 30th September 2013.

49 INTERNAL AUDIT SIX MONTH UPDATE REPORT

The Divisional Director, Risk and Assurance presented the report. He drew Members' attention to the developments described in paragraphs 4.10 and 4.11 of the report, namely a joint internal audit working arrangement with North Somerset Council and a contractual arrangement with the South West Audit Partnership (SWAP) to replace audit posts which currently could not be recruited. These would result in a significantly bigger pool of resources. There was a lot of detailed work to be done on integrating these resources, which could impact on the work plan in the short term, but there would be long-term benefits.

The Independent Member expressed concern about the speed of progress on creating an audit partnership. Discussions about a partnership had been under way for the past eighteen months, which was disruptive for this authority and potential partners. He suggested that the Committee should confirm its confidence in officers to progress the partnership more quickly. He wondered whether the external auditors had a view on the speed of progress.
Another Member, however, said that he was impressed that, at a time when the resources of Internal Audit were under pressure, so much progress had been made.

The Chair invited the external auditors to comment. Mr Morris responded that there were significant changes in audit work because of, among other things, the challenge of new audit standards. Local authorities were adopting a variety of new arrangements. He considered that before choosing a new arrangement it was essential to examine the impact on, for example, corporate governance and financial governance. Devon CC, Torbay Council and Plymouth City Council had an audit partnership and had established a joint audit committee to oversee it. The Corporate Audit Committee needed to be comfortable with any new audit arrangements, and progress should take place at a pace that ensured that the right types of audit were being undertaken. The nature of internal audit and the relationship between internal and external audit were changing. Internal audit was becoming more strategic and external audit did not rely on internal audit in the same way that it had done in the past. It was sometimes quicker and more economical for the external auditors to undertake a piece of work than to wait for it to be done by internal audit. However, internal audit remained important and needed a wide range of skills, which a partnership could provide.

The Divisional Director – Business Support thought that a great deal of progress had been made at a time of significant change. It was possible that the partnership with North Somerset would grow, but at the moment it was at a very early stage of development. It would be better to focus on developing relations with North Somerset and only try to enlarge the partnership at a later stage. The arrangement with SWAP would ensure that extra resource would be available and he hoped that performance against the work plan would improve. In the longer term the partnership with North Somerset might extend beyond audit and cover a number of back office functions. The Divisional Director, Risk and Assurance said that B&NES had been thinking about the partnership option for longer than North Somerset had, and that time had to be allowed for the development of a common ethos and culture, even though the total number of staff involved was only about twenty. He said that it would be helpful to him in discussions with North Somerset members if the Committee did reaffirm its commitment to the partnership approach. In response to a Member he said that he expected the pace of progress to pick up, and benefits to be even clearer by next April.

Members signified that they were content with current developments and wished to be kept informed of any obstacles which emerged.

The Risk Manager presented the six-month performance report. He explained that performance had been below the six-month target for the reasons set out in the report: the level of unplanned work, a reduction in staff resources and the need for follow-up work on reviews completed in 2012/13. The Head of Audit, Risk and Information had already informed the Committee of actions taken to strengthen staff resources.

A Member suggested that some of the items on the plan, such as VAT auditing, though important, were too detailed to need reporting to Members. Members should concentrate on the strategic issues.

Mr Morris said that he was impressed by the presentation of the information in the appendices; the dashboard in Appendix 1 was particularly effective. He did not agree with the Member who had suggested that the some of the issues were too detailed to be presented to the Committee.

Replying to a Member, the Divisional Director, Risk and Assurance said that the Audit Reviews were not listed in risk order, and that there were various reasons why an audit would be scheduled for a particular time of year. He suggested that any issue highlighted in red should attract the attention of the Committee.

RESOLVED to note progress made against the Internal Audit plan for 2013/14.

50 FRAUD AND CORRUPTION REVIEW

The Committee **RESOLVED**

> that, the Committee having been satisfied that the public interest would be better served by not disclosing relevant information, and in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, the public shall be excluded from the following item of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

The Group Manager (Audit/Risk) gave a presentation.

After the presentation, the Committee returned to open session.

Responding to a question from a Member, the Group Manager (Audit/Risk) explained that information about the whistleblowing procedure was given in the regular fraud bulletins the staff newsletter, and posters in Council buildings.

RESOLVED to confirm that the Council's Anti-Fraud & Corruption & Whistleblowing Polices and Anti-Money-Laundering Policies remain appropriate.

51 EXTERNAL AUDIT FEES AND UPDATE REPORT

Mr Morris presented the Fees Letter. He said there would be no increase in fees for the external audit of the Council and the Avon Pension Fund in 2013/14.

Mr Hackett presented the update report. He said that the annual certification report had only just been signed off and would be presented to the February 2014 meeting of the Committee. He drew attention to two issues. The first was whether the Council needed to review its charging policy, as detailed on page 101 of the agenda, and the second was the revaluation of property plant and equipment, as detailed on page 105.

By leave of the Chair, Mr Morris tabled the Annual Audit Letter and apologised that it had not been circulated with the agenda. He said that it needed to be published on the Council's website. An unqualified opinion was given on the Council's financial accounts and a positive conclusion on Value for Money. There were some recommendations for improvement. Section 4 dealt with the certification of grant claims and returns, where some issues had been identified, none of them significant. 95% of local authorities had issues in this area. It was proposed to charge the Council an additional fee of £2,000 for additional work on a claim relating to the Bath Transport Plan, an issue raised by an objector to the accounts.

Mr Morris announced that Mr Hackett, who had worked on the External Audit of the Council for some years, initially for the Audit Commission and latterly for Grant Thornton, would be transferring to work at Swindon Borough Council. Members thanked Mr Hackett for his work and for the help he had provided to the Committee.

Members thanked the Divisional Director – Business Support and his team for their excellent work.

RESOLVED to note the fees and the update from the External Auditor.

The meeting ended at 7.38 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	**Corporate Audit Committee**	
MEETING DATE:	**4th February 2014**	
TITLE:	**Treasury Management Strategy Statement and Annual Investment Strategy 2014/15**	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Treasury Management Strategy 2014/15 Appendix 2 - Annual Investment Strategy 2014/15 Appendix 3 - Authorised Lending List		

1 THE ISSUE

1.1 In February 2012, the Council adopted the revised CIPFA Treasury Management in Public services Code of Practice 2011 Edition, which requires the Council to approve a Treasury Management Strategy before the start of each financial year and for this to be scrutinised by an individual / group of individuals or committee.

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

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

1.4 This report has already been dispatched for February Cabinet, and any additional recommendations from the Corporate Audit Committee will be reported back verbally as an update to this report.

2 RECOMMENDATION

The Corporate Audit Committee agrees to:

2.1 recommend the actions proposed within the Treasury Management Strategy Statement (Appendix 1) to February Cabinet and Council for approval.

2.2 recommend the Investment Strategy as detailed in Appendix 2 to February Cabinet & Council for approval.

2.3 recommend the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 to February Cabinet & Council for approval.

The Corporate Audit Committee is also asked to:

2.4 Note the Treasury Management Indicators detailed in Appendix 1, and note that Cabinet are recommended to delegate authority for updating the indicators prior to approval at Full Council on 18th February 2014 to the Divisional Director – Business Support and Cabinet Member for Community Resources, in light of any changes to the recommended budget as set out in the Budget Report at February Cabinet.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

3.1 The resource implications are included in the report and appendices.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 These are detailed in paragraphs 1.1 – 1.3 above.

5 THE REPORT

Background

5.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

5.3 The suggested strategy for 2014/15 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor.

The strategy covers:

•	Treasury limits in force which will limit the treasury risk and activities of the Council;
•	Treasury Management Indicators;
•	The current treasury position;
•	The borrowing requirement;
•	Prospects for interest rates;
•	The borrowing strategy;
•	The investment strategy.

5.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby the impact on the revenue budget from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects , and
3. increases in the Minimum Revenue Provision for capital expenditure

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

5.5 The revised CIPFA Treasury Management in Public services Code of Practice 2011 Edition, adopted by Council in February 2012, requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Corporate Audit Committee have been nominated by Council to carry out this function.

2014/15 Treasury Management & Annual Investment Strategy

5.6 The Strategy Statement for 2013/14 set Prudential Indicators for 2013/14 – 2015/16, which included a total borrowing requirement at the end of 2013/14 of £141.8 million. At the end of December 2013, external borrowing was at £70 million, with no further borrowing planned in the 2013/14 financial year. External borrowing has reduced by £50 million during 2013/14 following completion of the debt repayment programme.

5.7 The proposed Treasury Management Strategy is attached as Appendix 1 and includes the Treasury Management Indicators required by the Treasury Management Code. The indicators contained within this report are currently draft and could be affected by changes made to the capital programme, following decisions on the budget report which is also on the agenda for this meeting. It is therefore requested that when this report is presented to February Cabinet, delegated authority is given to the Divisional Director – Business Support and the Cabinet Member for Community Resources to agree any changes to the indicators prior to reporting for approval at Full Council on the 18th February 2014.

5.8 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.

5.9 The budget report, which is on the agenda for February Cabinet & Council, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.

5.10 Appendix 1 also details the Council's current portfolio position as at 31st December 2013, which shows after the netting off of the £37.5 million investments, the Council's net debt position was £32.5 million.

5.11 The Annual Investment Strategy is attached at Appendix 2. This sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy Officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press. This has been the case in recent years, which protected the Council against losses of investment in Icelandic banks.

5.12 The Counterparty listing in Appendix 3 includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in Appendix 2 as at 31st December 2013 are included in the listing in Appendix 3.

5.13 Interest rate forecasts from the Council's Treasury advisors are included in Appendix 1.

6 RATIONALE

6.1 This report is a statutory requirement.

7 OTHER OPTIONS CONSIDERED

7.1 None.

8 CONSULTATION

8.1 Consultation has been carried out with the Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

8.2 Consultation was carried out via e-mail.

9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

9.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Arlingclose.

9.3 The 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carry out this scrutiny.

9.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

Contact person	*Tim Richens - 01225 477468 ; Jamie Whittard - 01225 477213* *Tim_Richens@bathnes.gov.uk* *Jamie_Whittard@bathnes.gov.uk*
Background papers	*2013/14 Treasury Management & Investment Strategy*
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

TREASURY MANAGEMENT STRATEGY – 2014/2015

Introduction

In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Fully Revised 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

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

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

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

Treasury Borrowing Limits for 2014/15 to 2016/17

It is a statutory duty under s.3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'.

The Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit. The Code requires an authority to ensure that its total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

The Affordable Borrowing Limit must include all planned capital investment to be financed by external borrowing and any other forms of liability, such as credit arrangements. The Affordable Borrowing Limit is to be set on a rolling basis for the forthcoming year and two successive financial years.

Treasury Management Indicators for 2014/15 – 2016/17

The Council measures and manages its exposures to treasury management risks using the following indicators. The council is asked to approve the following indicators:.

<u>Security: average credit rating</u>

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

	2014/15
Minimum Portfolio average credit rating	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.

	2014/15
Total cash available within 3 months	£15m

Interest rate exposures

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

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposures	£TBC	£TBC	£TBC
Upper limit on variable interest rate exposures	£TBC	£TBC	£TBC

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

Maturity structure of borrowing

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

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within five years	75%	0%
Five years and within 10 years	100%	0%
10 years and above	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 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the proportion of total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on proportion of principal invested beyond year end	£50m	£50m	£50m

Borrowing limits

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2014/15	2015/16	2016/17
Operational boundary – borrowing	£TBC	£TBC	£TBC
Operational boundary – other long-term liabilities	£2m	£2m	£2m
Operational boundary – TOTAL	£TBC	£TBC	£TBC
Authorised limit – borrowing	£TBC	£TBC	£TBC
Authorised limit – other long-term liabilities	£2m	£2m	£2m
Authorised limit – TOTAL	£TBC	£TBC	£TBC

Current Portfolio Position

The Council's treasury portfolio position at 31st December 2013 comprised:

	Principal	Ave. rate
	£m	%
External Borrowing		
Total Fixed rate funding – PWLB	50	4.79
Variable rate funding – LOBOs	20	4.50*
Other long term liabilities	Nil	N/A
TOTAL GROSS EXTERNAL DEBT	**70**	**4.71**
Investments		
Short Term Investments	**37.5**	**0.51**
Long Term Investments	Nil	N/A
TOTAL INVESTMENTS**	**37.5**	**0.51**
NET DEBT	**32.5**	

* The market loans are 'lenders options' or LOBO's. These are fixed at a relatively low rate of interest for an initial period but then revert to a higher rate of 4.5%. When the initial period is over the loans are then classed as variable, as the lender has the option to change the interest rate at 6

monthly intervals, however at this point the borrower has the option to repay the loan without penalty.
** Total Investments includes Schools balances where schools have not opted for an external bank account and cash balances related to B&NES PCT Pooled budgets and West of England Growth Points funding.

External Context & Prospects for Interest Rates (Arlingclose Ltd)

The Council has appointed Arlingclose as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following section gives their commentary on the economic context and views on the prospects for future interest rates.

Economic background: The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain knock-outs. Unemployment was 7.7% in August 2013, but is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.

The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Fed did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

Credit outlook: The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will suffer a haircut on its conversion bail-in to alternative securities and/or equity There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

Interest rate forecast: Arlingclose's forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table below shows. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.

Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.

Arlingclose continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

Arlingclose Interest Rate Forecasts

Arlingclose central interest rate forecast – December 2013

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield*
Q1 2014	0.50	0.45	0.95	3.30
Q2 2014	0.50	0.50	0.95	3.35
Q3 2014	0.50	0.55	0.95	3.40
Q4 2014	0.50	0.55	1.00	3.45
H1 2015	0.50	0.55	1.10	3.55
H2 2015	0.50	0.65	1.20	3.75
H1 2016	0.50	0.80	1.30	4.05
H2 2016	0.50	0.80	1.40	4.15

* The Council can currently borrow from the PWLB at 0.80% above gilt yields

The Council has budgeted for interest rates to remain constant at 0.35% for 2014/15 & beyond.

Borrowing Strategy

The Council currently holds £70 million of long-term loans (a decrease of £50m on the previous year) as part of its strategy for funding previous years' capital expenditure, and we will continue to monitor appropriate opportunities for borrowing in line with the overall Capital Financing Requirement.

The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31st March 2014 is expected to be £174 million, and is forecast to rise to £215 TBC million by March 2015 as capital expenditure is incurred. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

The maximum expected long-term borrowing requirement for 2014/15 is:

	£m
Not borrowed in previous years	*104*
Forecast increase in CFR	*41*
Loans maturing in 2015/16	*0*
TOTAL	***145***

The Authorities borrowing strategy will continue to recognise the implications of low short term interest rates. It is therefore likely to remain more cost effective to utilise internal resources where available and borrow short-term as the need arises.

This strategy will help to minimise borrowing costs and reduce treasury risk. The Authority will continue to regularly review the benefits of this strategy in the light of market conditions and wider changes in the economy. Arlingclose will continue to assist the Authority in this respect.

Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- any institution approved for investments that meets the investment criteria (this includes other local authorities)
- any other bank or building society approved by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (except the Avon Pension Fund)
- Public or Private Bond Placement
- Special purpose companies created to enable joint Local Authority bond issues.

The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

The Authority holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these

LOBOS have options during 2014/15, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £TBC.

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

Debt Rescheduling

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

Policy on use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits).

The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

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

Derivative counterparties

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.

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APPENDIX 2

ANNUAL INVESTMENT STRATEGY

Investment Policy

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

The strategy of this policy is to set outer limits for treasury management operations. In times of exceptional market uncertainty, Council Officers will operate in a more restrictive manner than the policy allows, as has been the case during recent years.

Avon Pension Fund Investments

The Council's Treasury Management team also manage the Avon Pension Fund's internally held cash on behalf of the Fund. The regulations requires that this cash is accounted for separately and needs to be invested separately from the Council's cash, and the split has been managed this way since 1 April 2010. The Fund's investment managers are responsible for the investment of cash held within their portfolios and this policy does not relate to their cash investments.

The cash balance held internally is a working balance to cover pension payments at any point in time and as a result the working balance will be c. £10 million. This working balance represents around 0.5% of the overall assets of the Fund. These investments will operate within the framework of this Annual Investment Strategy, but the maximum counterparty limit and investment term with any counterparty are set annually by the Avon Pension Fund Committee. These limits are in addition to the Council's limits for counterparties as set out in Appendix 3.

West of England Revolving Investment Fund (RIF)

Bath and North East Somerset Council is the Accountable Body for the West of England Revolving Investment Fund, and acts as an agent holding Government grants until they are ready to be distributed to Local Authorities for infrastructure works over the coming years.

These funds are kept separate from those of the Council, and therefore do not form part of the Council's counterparty limit restrictions. The funds are invested primarily to protect the capital, and in order to achieve this high level of capital security, investments are made solely with UK Central Government and UK Local Authorities.

Any interest earned on these investments is reinvested into the fund.

Approved Investment Counterparties

The Council may invest its surplus funds with any of the counterparties in the flowing table, subject to the cash and time limits shown:

Counterparty		Cash limit	Time limit
UK Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£15m each	10 years
	AA+		
	AA		5 years
	AA-		
	A+		2 years
	A	£10m each	
	A-	£5m each	18 months
Foreign Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£7.5m each	5 years
	AA+		3 years
	AA		2 years
	AA-		18 months
	A+		1 Year
	A	£2.5m each	6 months
The Council's current bank account (NatWest) if below the criteria above.		£10m	next day
UK Central Government Including Debt Management Agency Deposit Facility (irrespective of credit ratings)		unlimited	30 years
UK Local Authorities (irrespective of credit rating)		£10m each	30 years
UK Registered Providers of Social Housing whose lowest published long-term credit rating is [A-] or higher		£5m each	5 years
UK Registered Providers of Social Housing whose lowest published long-term credit rating is [BBB-] or higher and those without credit ratings		£2m each	2 years
UK building societies not meeting the above criteria that have a minimum asset size of £4bn and a long-term rating of BBB or above.		£2m each	3 months
Money market funds and other pooled funds	Average monthly fund size £2bn or above	£10m each	n/a
	Average monthly fund size between £1bn-£2bn	£5m each	n/a

Any other organisation, subject to an external credit assessment and specific advice from the Authority’s treasury management adviser	£5m each	1 year

There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the EU *Bank Recovery and Resolution Directive* are implemented.

The majority of the Council’s investments will be made for relatively short periods and in highly credit rated investments, giving priority to security and liquidity ahead of yield. However, where the Council has identified a core cash balance that is not required for any cash outflows in the short term, these funds will be considered suitable for a wider range of investments, with a greater focus on achieving a level of investment income that can support Council services. These may include long-term investments with registered providers of social housing, small businesses or corporate bond funds where an enhanced return is paid to cover the additional risks presented. Standard risk mitigation techniques, such as wide diversification and external credit assessments, will be employed, and no such investment will be made without a specific recommendation from the Council’s treasury management adviser.

In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority’s treasury management adviser.

<u>Current account bank</u>
Following a competitive tender exercise held in 2007, the Council’s current accounts are held with National Westminster Bank plc, (NatWest), which is close to the bottom of the above credit rating criteria. The Council will treat NatWest as “high credit quality” for the purpose of making investments that can be withdrawn on the next working day, subject to the bank maintaining a credit rating no lower than BBB-. Following the recent withdrawal of the Co-Operative Bank from the local authority market, the Council will be reviewing the market before any re-tender of its current banking contract.

<u>Registered Providers</u>
Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

<u>Building Societies</u>
The Council takes additional comfort from the building societies’ regulatory framework and insolvency regime where, in the unlikely event of a building

society liquidation, the Council's deposits would be paid out in preference to retail depositors. The Council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

However, no investments will be made with building societies that have an asset size of lower than £4 billion, or, where they do hold a long-term credit rating, this rating is not lower than BBB or equivalent, due to the increased likelihood of default implied by this rating.

Money market funds
These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Other Pooled Funds
The Council may consider using pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter 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.

Other Organisations
The Council may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

Risk Assessments & Credit Ratings

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality, unless an investment-specific rating is available.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

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

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

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

If further counterparties are identified during the year that meet the minimum credit rating criteria and conform to the other criteria set out in the Treasury Management Practice Schedules, they can be added to the lending list following the agreement of the Chief Financial Officer.

Foreign countries

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £20m per country for those rated AAA and £15 million per country for those rated AA+. Banks that are domiciled in one country but are owned in another country will need to meet the rating criteria of and will count against the limit for both countries. There is no limit on investments in the UK, irrespective of the sovereign credit rating.

Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia Bank) will be classed as UK banks due to their substantial UK franchises and the arms-length nature of the parent-subsidiary relationships.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment

Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Specified Investments

Specified investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The CLG Guidance defines specified investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-Specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown below.

	£m
Total long-term investments	50
Total investments without credit ratings or rated below A-	10
Total investments in foreign countries rated below AA+	0
TOTAL	**60**

The time limit for long-term investments in UK Local Authorities & Local Government will be 30 years.

Long-term investments will be limited to 50% of a counterparty's limit where it meets the above credit rating criteria (except the UK Government). The combined value of short-term and long-term investments with any organisation will not exceed the limits for specified investments highlighted above.

Investment instruments

Investments may be made using any of the following instruments:

- interest paying bank accounts
- fixed term loans & deposits
- callable deposits where the Council can demand repayment at any time (with or without notice)
- callable loans where the borrower may demand early repayment at any time,
- collared deposits
- certificates of deposit
- bonds, notes, bills, commercial paper and other marketable instruments, and
- Shares in money market funds and other pooled funds.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposure.

Liquidity management

The Council regularly reviews and updates its cash flow forecasts to determine the maximum period for which funds may prudently be committed. Limits on long-term investments are set by reference to the Council's medium term financial plan, levels of reserves and cash flow forecast.

Planned investment strategy for 2014/15

Investments are made in three broad categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Bank deposit accounts and Money Market Funds will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. Preference will continue to be given to investments with UK banks with approved credit ratings.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Decisions on making longer term investments (i.e. over 1 year) will be considered during the year after taking account of the interest rate yield curve, levels of core cash and the amount of temporary internal borrowing related to funding of capital spend. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds may be used to diversify the portfolio. The use of external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments may be considered.

The Council has already reduced its cash position to repay fixed interest debt held at higher rates. The continuing low level of short-term interest rates will mean the on-going use of internal cash resources to minimise the new borrowing. This approach will be regularly reviewed in light of market conditions and the wider economic outlook.

Review Reports

The revised CIPFA Code of Practice requires that both mid year and annual review reports on treasury activities are reported to Full Council.

Other Matters

The CLG Investment Guidance also requires the Council to note the following matters each year as part of the investment strategy:

<u>Treasury management advisers</u>
The Council's has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues,, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,

- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is monitored by officers on a regular basis, focusing on supply of relevant, accurate and timely information across the headings above.

Investment training

The needs of the Council's treasury management staff for training in investment management are assessed every year as part of the staff performance development review process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment of money borrowed in advance of need

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

The total amount borrowed will not exceed the 2014/15 authorised borrowing limit of £215 million TBC. The maximum periods between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

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Proposed Counterparty List
2014/15

CRITERIA	Duration	Council Limit (£m)	FITCH RATINGS S/Term	FITCH RATINGS L/Term	FITCH RATINGS Support	Moody's Ratings S/Term	Moody's Ratings L/Term	S&P Ratings S/Term	S&P Ratings L/Term
UK Banks	**Sovereign Rating**			**AA+**			**Aa1**		**AAA**
Barclays Bank plc	2 Years	10	F1	A	1	P-1	A2	A-1	A
HSBC Bank plc	5 Years	15	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Lloyds Banking Group									
Lloyds Bank plc	2 Years	10	F1	A	1	P-1	A2	A-1	A
Bank of Scotland plc	2 Years	10	F1	A	1	P-1	A2	A-1	A
Royal Bank of Scotland Group									
National Westminster Bank plc	18 Months	5	F1	A	1	P-2	A3	A-2	A-
Royal Bank of Scotland plc	18 Months	5	F1	A	1	P-2	A3	A-2	A-
Santander UK plc **(domiciled in UK)**	6 Months	5	F1	A	1	P-1	A2	A-1	A
Standard Chartered Bank	2 Years	15	F1+	AA-	1	P-1	A1	A-1+	AA-
UK Building Societies									
Nationwide	2 Years	10	F1	A	1	P-1	A2	A-1	A+
Yorkshire	3 Months	2	F2	BBB+	5	P-2	Baa2	-	-
Coventry	18 Months	5	F1	A	5	P-2	A3	-	-
Leeds	18 Months	5	F2	A-	5	P-2	A3	-	-
Foreign Banks									
Australia	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Australia & New Zealand Banking Group	18 Months	7.5	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Commonwealth Bank of Australia	18 Months	7.5	F1+	AA-	1	P-1	Aa2	A-1+	AA-
National Australia Bank Group									
National Australia Bank	18 Months	7.5	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Westpac Banking Corporation	18 Months	7.5	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Canada	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Bank of Montreal	1 Year	7.5	F1+	AA-	1	P-1	Aa3	A-1	A+
Bank of Nova Scotia	1 Year	7.5	F1+	AA-	1	P-1	Aa2	A-1	A+
Canadian Imperial Bank of Commerce	1 Year	7.5	F1+	AA-	1	P-1	Aa3	A-1	A+
Royal Bank of Canada	18 Months	7.5	F1+	AA	1	P-1	Aa3	A-1+	AA-
Toronto-Dominion Bank	18 Months	7.5	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Finland	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Pohjola Bank plc	1 Year	7.5	F1	A+	1	P-1	Aa3	A-1+	AA-
Germany	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Deutsche Bank	6 Months	5	F1+	A+	1	P-1	A2	A-1	A
DZ Bank	1 Year	7.5	F1+	A+	1	P-1	A1	A-1+	AA-
KfW Bankengruppe	5 Years	7.5	F1+	AAA	1	P-1	Aaa	A-1+	AAA
Landesbank Berlin AG	1 Year	7.5	F1+	A+	1	P-1	A1	-	-
Landesbank Hessen-Thuringen	6 Months	5	F1+	A+	1	P-1	A2	A-1	A
Netherlands	**Sovereign Rating**			**AAA**			**Aaa**		**AA+**
Bank Nederlandse Gemeenten	3 Years	7.5	F1+	AAA	1	P-1	Aaa	A-1+	AA+
ING Bank NV	6 Months	5	F1+	A+	1	P-1	A2	A-1	A
Rabobank Nederland NV	18 Months	7.5	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Norway	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
DNB Bank	1 Year	7.5	F1	A+	1	P-1	A1	A-1	A+
Singapore	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Development Bank of Singapore	18 Months	7.5	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	18 Months	7.5	F1+	AA-	1	P-1	Aa1	A-1+	AA-
United Overseas Bank	18 Months	7.5	F1+	AA-	1	P-1	Aa1	A-1+	AA-

Proposed Counterparty List

2014/15

CRITERIA	Duration	Council Limit (£m)	FITCH RATINGS S/Term	FITCH RATINGS L/Term	FITCH RATINGS Support	Moody's Ratings S/Term	Moody's Ratings L/Term	S&P Ratings S/Term	S&P Ratings L/Term
Sweden	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Nordea Group									
Nordea Bank AB	18 Months	7.5	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Nordea Bank Finland plc	18 Months	7.5	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Skandinaviska Enskilda Banken (SEB)	1 Year	7.5	F1	A+	1	P-1	A1	A-1	A+
Svenska Handelsbanken	18 Months	7.5	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Swedbank AB	1 Year	7.5	F1	A+	1	P-1	A1	A-1	A+
Switzerland	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Credit Suisse	6 Months	5	F1	A	1	P-1	A1	A-1	A
UBS AG	6 Months	5	F1	A	1	P-1	A2	A-1	A
USA	**Sovereign Rating**			**AAA**			**Aaa**		**AA+**
Bank of New York Mellon	18 Months	7.5	F1+	AA-	1	P-1	Aa2	A-1+	AA-
J P Morgan Chase Bank NA	1 Year	7.5	F1	A+	1	P-1	Aa3	A-1	A+
Wells Fargo Bank NA	18 Months	7.5	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Supernational									
Council of Europe Development Bank	3 Years	10	F1+	AA+	-	P-1	Aaa	A-1+	AA+
European Bank for Reconstruction & Dev	10 Years	25	F1+	AAA	-	P-1	Aaa	A-1+	AAA
European Investment Bank	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Inter-American Development Bank	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
IBRD (World Bank)	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Nordic Investment Bank	5 Years	10	-	-	-	P-1	Aaa	A-1+	AAA

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	4th February 2014	**AGENDA ITEM NUMBER**
TITLE:	**Risk Management Update**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Risk Management Strategy		

1. THE ISSUE

1.1 This report has been prepared to provide the Corporate Audit Committee with an update on the Council's current Risk Management Strategy and Corporate Risk Register.

2. RECOMMENDATION

2.1 The Committee is asked to:

2.2 Note the Council's Risk Management Strategy and Corporate Risk Register.

3. FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4. THE REPORT

4.1 Background

4.2 The current Risk Management Strategy was approved in April 2011 (Appendix 1). The Strategy aim was to improve the integration of risk management into the culture and working practices of the organisation and its partners. It explains the approach to risk management and outlines the risk management framework by which the organisation can view, manage and respond to risk and opportunity through a robust, systematic and documented process.

4.3 The benefits of managing risk and opportunity are improved strategic, operational and financial management, continuity of knowledge and information management processes, improved statutory compliance, meeting best practice and ultimately improving the services delivered by the Council and its partners.

4.4 The Strategy recorded the following objectives:

- Provision of a Flexible & Holistic RM Framework
- Effective Monitoring, Review & Reporting
- Improved Transparency & Decision Making
- Clear process of Identification & Evaluation of Risks with Key Partners
- Improved Training, Skills & Knowledge
- Effective use of Technology & Resources

4.5 The framework of systems employed to manage risk includes:

- Risk Registers (i.e. Corporate & Service)
- Decision Making (i.e. Democratic & Officer)
- Service & Resource Plans (i.e. MTSRP & SAP's)
- Financial Contingency Planning (i.e. Corporate & Project Reserves & Robustness Statements)
- Gateways & Governance (i.e. Capital Strategy Group)
- Projects & Programmes (i.e. Workplaces)
- Dashboards (i.e. Performance Management)

4.6 Clearly since 2011 a significant number of issues have impacted on Local Government and whilst the risk management framework and its principles remain sound the Strategy will clearly need to be refreshed in 2015. This will ensure it takes account of any changes in priorities as a result of the outcome of the next national and local elections.

4.7 One of the key risk management processes is the maintenance of comprehensive risk registers. The level of proactive support to maintain Service / Team risk management procedures has reduced since 2011. This is based on the amalgamation of the Internal Audit and Risk Management Teams and the need to make savings resulting in a reduction in staff resources.

4.8 Despite, the reduction of resources the Audit & Risk Team continue to provide all necessary advice to Service / Teams to enable them to maintain Risk Registers. In addition, the team assist in the maintenance of the Council's Corporate Risk Register.

4.9 The Corporate Risk Register is updated on a quarterly basis and requires input from Strategic and Divisional Directors and reported through the Quarterly Performance Report process.

4.10 The Corporate Risk Register for the period ending December 2013 will be made available at the Committee Meeting.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

5.2 This report has been prepared to 'inform' the Committee in line with the Committee's adopted 'Terms of Reference'. Failure to consider the Council's Risk Management procedures would mean that the Committee is failing in its prescribed responsibility.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

7 CONSULTATION

7.1 A copy of this report was distributed to the S151 Officer for consultation.

Contact person	*Andy Cox (01225 477316) Jeff Wring (01225 477323)*
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Risk Management Strategy

"Everyone is a risk manager"

Approval Date: 16th April 2011

Table of Contents

Appendices

If you require any clarification on any aspect of the Risk Management Strategy or require this document in a different format, please contact:

Andy Cox, Risk Manager
01225 477316
andy_cox@bathnes.gov.uk

1 Foreword

Welcome to the Risk Management Strategy 2011 approved and endorsed by Bath & North East Somerset Council's Cabinet Member for Resources & Support Services.

The vision to make Bath & North East Somerset an even better place to live work and visit is underpinned by the effective management of risks and opportunities. An effective risk management strategy will help to successfully deliver the corporate objectives of the Council which are aligned to the Local Strategic Partnership's Sustainable Community Strategy 2009 - 2026.

Working in partnership we are responsible for the delivery of essential services to the people and communities of Bath & North East Somerset.

This Strategy aims to improve the integration of risk management into the culture and working practices of the organisation and its partners.

The Strategy explains the approach to risk management and outlines the risk management framework by which the organisation can view, manage and respond to risk, both threats and opportunities, in a robust, systematic and documented way.

The benefits gained in managing risk and opportunity are improved strategic, operational and financial management, continuity of knowledge and information management processes, improved statutory compliance, meeting best practice and ultimately improving the services we deliver.

Cabinet Member Resources & Support Services

Malcolm Hanney

Council Chief Executive

John Everitt

2 Introduction

‘Risk Management is an integral part of the Corporate Governance framework for Local Government ’.

The Council’s Risk Management Strategy has been subject to annual review but it required a formal update to reflect the progress made and detail what is still required to fully integrate risk management into the culture and working practices of the organisation.

Risk management is an integral part of the corporate governance framework for Local Government. This is detailed in the Council’s Local Code of Corporate Governance which is reviewed annually and reported in the Council’s Annual Governance Statement.

The Risk Management Strategy will help support and underpin the delivery of the Local Strategic Partnership Sustainable Community Strategy and the Council’s improvement priorities:

Bath & North East Somerset Council Improvement Priorities

▪ Improving Transport and the Public Realm	▪ Building Communities Where People Feel Safe and Secure
▪ Tackling the causes and effects of Climate Change	▪ Improving the availability of affordable housing
▪ Promoting the independence of older people	▪ Improving the life chances of disadvantaged children & young people
▪ Improving School Buildings	▪ Sustainable Growth

It is recognised that risks and opportunities have and are being managed on a daily basis, either through formal risk management processes already in place or sometimes through an intuitive and instinctive basis. Unfortunately the later approach often fails to identify all of the risks and does not provide a systematic process to monitor and manage potential exposure. A more formal framework to methodically address the risks (threats and opportunities) attached to our activities must be adopted with the aim of securing and maximising planned outcomes.

We need to be able to understand and respond to our risks and embed a risk management ethos in all our core business processes.

What is a Risk?

- **A Risk is an event or series of events which will adversely affect the ability to meet objectives – in part or in full. A risk can also be the failure to take advantage of opportunities to optimise the achievement of objectives.**

The focus of good risk management is the identification, evaluation, control and review of threats and opportunities. Its objective is to add maximum value to all the activities. It analyses the potential downside (threats) and upside (opportunities) of all factors which can affect the achievement of key objectives and service delivery to the Community.

A clear overarching principle of this strategy is to develop our risk management processes and procedures alongside existing corporate arrangements. This has the clear advantage of achieving and demonstrating an embedded risk management process, but also reduces the need for additional reporting. Our aim therefore is to integrate - as far as possible - the processes and reporting mechanisms of the three key building blocks of Corporate Governance, Performance, Risk and Financial Management.

Benefits:

Integration of risk management has numerous business benefits, which include:

▪ Protecting and adding value by supporting the achievement of the Sustainable Community Strategy.	▪ Safeguarding of tangible and intangible assets.
▪ Improved strategic, operational and financial management.	▪ Promotion of innovation and change.
▪ Contributing to more efficient use/allocation of resources.	▪ Optimising operational efficiency and therefore delivering efficiency gains and value for money.
▪ Mitigation of key threats and taking advantage of key opportunities.	▪ Allocating time and management effort based on formal assessment of threats and opportunities.
▪ Protecting and enhancing assets and image.	▪ Avoid nasty surprises, shocks, crises and the time taken to 'fire fight' these.
▪ Improving decision-making (making the right decisions).	▪ Improved customer service delivery.

3 Risk Management Vision & Objectives

The purpose of the Risk Management Strategy is set out in its vision which is supported by six strategic risk management objectives. **Appendix 1** records each objective, the related actions, timescale for delivery, lead officers/bodies and the success criteria for assessing achievement.

Bath & North East Somerset Local Strategic Partnership
Sustainable Communities Strategy

↓

B& NES Council
Corporate Plan

↓

Vision For Risk Management

Embedment of an approach to managing risk and taking opportunities which results in improved Strategic and Operational Management for the organisation and actively enables the delivery of the Sustainable Community Strategy and the Council's Corporate Plan.

↓

Strategic Objectives

1. Provision & Implementation of a comprehensive Risk Management Framework
2. Regular monitoring, review & reporting on Corporate & Operational Risks
3. Improved Decision Making (openness & transparency) including incorporation of Sustainability Impact Assessments
4. Identification & evaluation of risks associated with key partners, contractors & community groups
5. Provision of effective risk management training for all relevant staff & Councillors.
6. Improve efficiency & effectiveness of Risk Management support through the collaboration of systems & resources with key partners

↓

Achievement of the "Vision for Risk Management"
- See Appendix 1

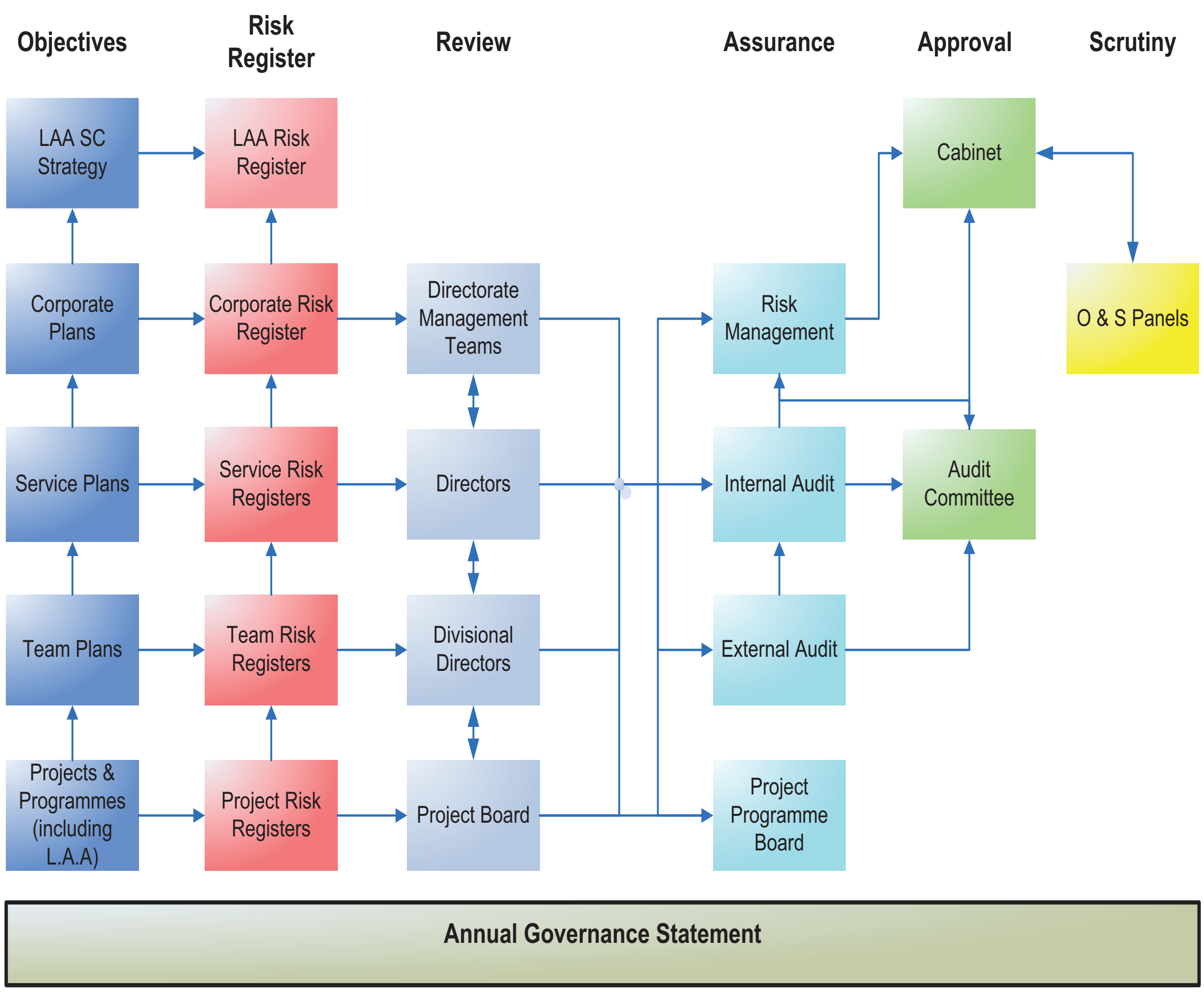
4 Risk Management Framework

The Risk Management Framework sets out the approach for implementing the Risk Management Strategy and integrating risk management into the culture and working practices of the organisation and its partners.

To work effectively the risk management framework requires: -

- Commitment from the Cabinet (Council), Corporate Audit Committee, Directors & Directorate Management Teams.
- Assignment, acceptance and adoption of roles & responsibilities
- Allocation of appropriate resources for providing support and advice.

Risk Management Framework



Attached to the risk management framework is an integrated set of tools and techniques for use in the various stages of the risk management process (see next section).

Roles & Responsibilities

The table below summarise the key roles and responsibilities relating to risk management.

Group or Individual	Role
Member Champion	Gain an understanding and promote risk management and its benefits throughout the Council & it's partners, ensuring Members take risk management into consideration when making decisions.
Cabinet & Elected Members	Oversee the effective management of risk throughout the Council and its partnerships, and gain an understanding of its benefits, ensuring officers develop and implement an all encompassing approach to risk management.
Corporate Audit Committee	Provide independent assurance of the risk management framework and associated control environment, independent scrutiny of the Council and partners financial and non-financial performance, and oversee the financial reporting process.
Directorate Management Teams	Gain an understanding and promote the risk management process and its benefits, oversee the implementation of the risk management strategy and agree any inputs and resources required supporting the work corporately.
Directors	Ensure that the risk management process is promoted, managed and implemented effectively in their service areas within the organisation. Liaising with external agencies to identify and manage risk. Disseminating relevant information to service managers and employees.
Service Managers	Raise awareness, manage and implement the risk management process effectively in their service areas, recommending any necessary training for employees on risk management. Incorporating risk ownership through the appraisal scheme with employees and share relevant information with colleagues in other service areas.
Employees	Manage risk effectively in their jobs, liaising with their line manager to assess areas of risk in their job. Identify new or changing risks in their job and feed these back to their line manager.
Internal Audit	Challenge the risk management process, including the identification and evaluation of risk and provide assurance to offices and members on the effectiveness of controls.
Risk Management Team	Support the Council and its services in the effective development, implementation and review of the Council's risk management processes. Identify and communicate risk management issues to services, and assist in undertaking risk management activity through training or direct support.

5 Risk Management Process

The risk management process adopted by the Council follows the new international standard 'ISO31000:2009 – Risk Management Principles & Guidelines'.

The standard recommends that organisations develop, implement and continuously improve a risk management framework as an integral component of their management system. It was stated in the introduction to this Strategy that a clear overarching principle of this strategy is to develop risk management processes and procedures alongside existing corporate arrangements.

The risk management process is a planned and systematic approach. The stages of the process are shown below.

1 Risk Identification Describing the risks and recording them in risk registers.	**2 Risk Analysis** Estimating the likelihood and impact of risks
3 Risk Evaluation Ascertain whether the risks are within the Partnerships "risk Appetite"	**4 Risk Treatment** Actions to reduce the likelihood or impact of the risks to a level which is acceptable to the Partnership

5.1 Risk Identification, Analysis & Evaluation

Risk registers are used to apply the risk management process and should be considered a key management tool. A standard risk register template has been adopted and this is available for use through the intranet. (Copy at Appendix 2)

A hierarchy of risk registers is maintained and therefore responsibility for identifying, documenting, analysing / evaluating risks and agreeing risk treatment will be dependent on the level of risk register (see roles and responsibilities).

Risk Registers are then used to formally document risks with the objective of formulating a plan of action to manage the identified risks. It is the responsibility of all to ensure risks are identified ("everyone is a risk manager"). A number of tools assist this process, i.e. –

- Performance Development Review meetings;
- 1:1 Performance Meetings;
- Team or Management Meetings;
- Risk Management Workshops

When risks are identified it is essential that the risk is accurately described recording the key elements:

1) Trigger (Cause);

2) Consequence (Implication)

By clearly describing the trigger and consequence(s) it will be easier to understand what it is that needs to be managed. For example, if you can understand the potential 'trigger' you'll be able to consider the measures that can be put in place to prevent / detect the trigger and therefore reduce the chance of the risk being realised. If the consequence is fully understood you will be able to consider the cost / benefit analysis of taking action i.e. agreeing your 'strategy' to manage the risk.

To ensure that focus is concentrated in the first instance on those risks that present the greatest threat or opportunity, defined risks need to be measured. The measurement of risk is calculated by assessing:

- **IMPACT** – if the risk occurred
- **LIKELIHOOD** – of the risk occurring

Each defined risk will be scored by assessing the 'Impact' on a scale of one to five and multiplying this figure by the score for 'likelihood' (also gauged on a scale of one to five).

This 5 x 5 scoring matrix has been adopted by the majority of public sector bodies and is consistent with the national model adopted within the Emergency Services.

The product of this calculation of impact and likelihood is a "**Risk Score**", which can range from a minimum of 1 to a maximum of 25.

Example: ***Risk Impact Score (5) x Risk Likelihood Score (5)***

= Risk Score (5 x 5 =25)

IMPACT –

The following criteria are used as guidance to assess the potential Impact of each risk occurring;

Impact Score	Negligible 1	Low 2	Medium 3	High 4	Critical 5
Service Objectives	Minimal impact on the ability to deliver service objectives or meet national targets	Low impact on the ability to deliver service objectives or meet national targets	Some impact on ability to meet one or more service objective or meet national targets	Significant impact on ability to meet one or more service objective or meet national targets	Unable to deliver service objectives or meet national targets
Service Disruption	Minimal disruption not impacting on an important service which can be resolved in less than a day	Brief disruption of important service area Service disruption 1 day	Major effect to an important service area Service Disruption 2-3 Days	Complete loss of an important service area Service Disruption 3-5 Days	Major loss of service, Service Disruption 5+ Days
Financial	Up to 1% of budget	1% to 5% of budget	6% to 15% of budget	16% to 25% of budget	More than 25% of budget
Reputation	No Reputational Impact	Contained within team or Service	Adverse local publicity /local public opinion aware	Adverse publicity in local/ professional/ municipal press	Adverse and persistent national media coverage
Effect on project objectives / schedule deadlines	Minimal impact to project / slight delay less than 1 week	Minimal impact to project / slight delay less than 2 weeks	Adverse effect on project / significant slippage 3 weeks – 2 months	Significant impact on project or most or most of expected benefits fail / major delay 2 – 3 months	Complete failure of project / extreme delay 3 months or more
People & Personal Safety	Minor incident	Minor incident	Severe injury to one or more people	Major injury to one or more people	Death of an individual or several people
Safeguarding & duties of Care	Minimal or no impact on the Services Safeguarding or Duty of Care requirements	Consideration needs to be given to Safeguarding or Duty of Care requirements but unlikely to have an adverse impact on meeting overall requirements.	There are Safeguarding or Duty of Care issues that may have an impact on meeting overall requirements	Significant impact on meeting Safeguarding or Duty of Care Responsibilities	Not meeting legal responsibilities placing children or vulnerable adults at risk leading to a Serious Case Review

Impact Score	Negligible 1	Low 2	Medium 3	High 4	Critical 5
Environmental or Social	No detrimental impact	No lasting detrimental impact	Short-term detrimental impact	Long-term detrimental impact	Extensive long-term detrimental impact
Legal obligations / Litigation	Litigation, claims or fines Services up to £10K Corporate: £25K	Litigation, claims or fines Services: up to £25K Corporate: £50K	Litigation, claims or fines Services: up to £50K Corporate: £100K	Litigation, claims or fines Services: up to £125K Corporate: £250K	Litigation, claims or fines Services: up to £250K Corporate: £500K
Governance	Little or no impact on Governance arrangements	Low impact on Governance arrangement s	Has an impact on the Governance arrangements	Significant issue on the Annual Governance Statement or non compliance the Constitution or Financial Regulations	Council does not meet its statutory governance requirements resulting in unable to provide assurance to stakeholders in its Annual Governance Statement
Personal Privacy infringement	Isolated individual personal detail compromised	Isolated individual personal detail compromised	Some individual personal details compromised	Many individual personal details compromised	All personal details compromised

LIKELIHOOD –

Once the Impact has been assessed, the focus then turns to the Likelihood. The following criteria are used to assess the potential likelihood of each of the identified risks becoming a reality, and would generally be based on a five year period.

Assessment of Likelihood		
1	Rare	0 – 5% chance of occurring
2	Unlikely	6 - 20% chance of occurring
3	Possible	21 – 50% chance of occurring
4	Likely	51 – 80% chance of occurring
5	Almost Certain (Highly Likely)	80 – 100% chance of occurring

RISK MATRIX

By comparing the risk score to a Risk Matrix, the risk can be assessed as to whether the identified risk is considered High (Red), Medium (Amber) or Low (Green).

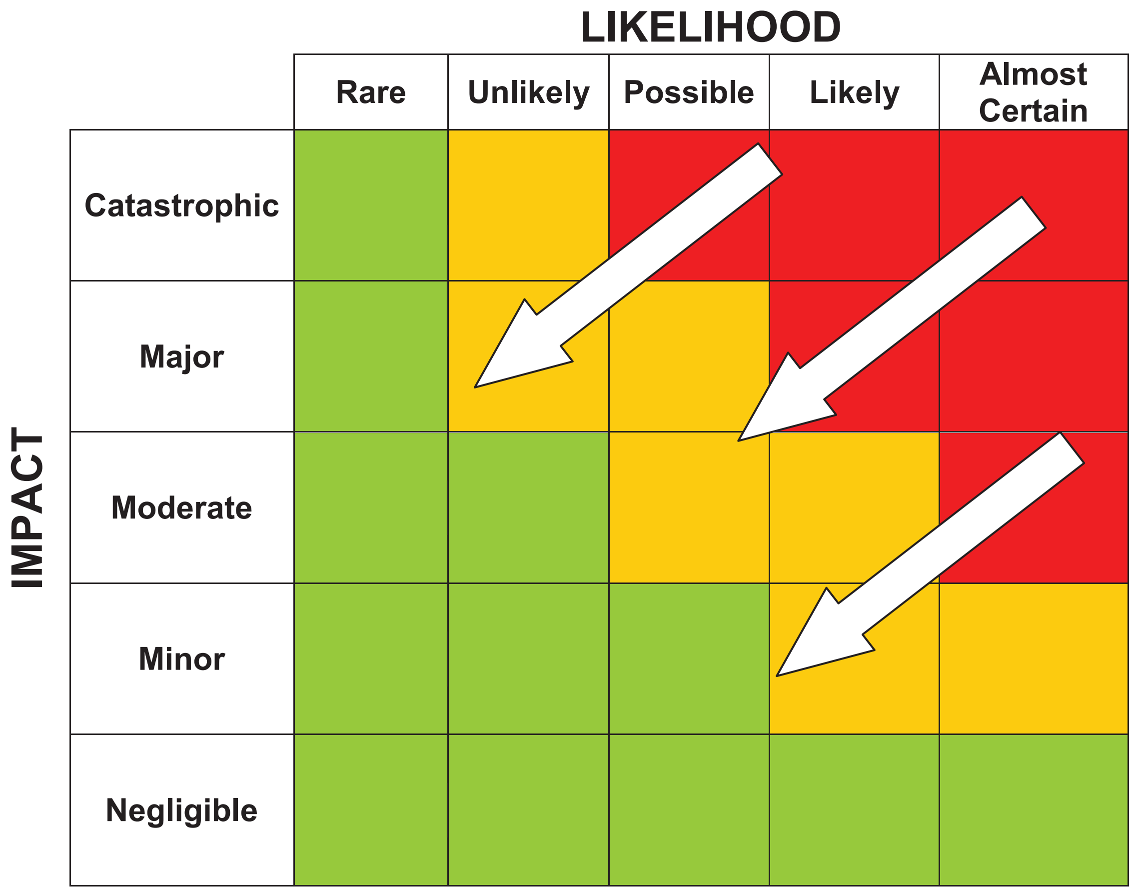
LIKELIHOOD

		1	2	3	4	5
		Rare	**Unlikely**	**Possible**	**Likely**	**Almost Certain**
		< 5 %	*5% - 20%*	*21% - 50%*	*51% - 80%*	*> 80%*
5	**Critical**	5	10	15	20	25
4	**High**	4	8	12	16	20
3	**Medium**	3	6	9	12	15
2	**Low**	2	4	6	8	10
1	**Negligible**	1	2	3	4	5

IMPACT

5.2 ACTIVE MANAGEMENT OF RISKS

Clearly the aim of the risk management process is to **Actively Manage** risks down the risk matrix in terms of their potential impact on the organisation from “Red to Amber” & “Amber to Green”.



The use of a Risk Matrix table is useful in producing a ‘risk aware’ culture and to provide focus at the various management levels across the organisation.

The mapping and colour coding of risks enables risks to be monitored and if necessary these risks can be “escalated” to the next level of management for review and action.

When risks have been initially assessed and ranked within their relevant zones, there are four strategy options that are available.

These options are sometimes referred to as the 4 T’s:

Treat	Take direct action to reduce the level of risk to an acceptable level. Current ‘ongoing’ controls / actions to be continually monitored and actions planned to be implemented. Actions recorded in risk registers must be ‘SMART’ (specific, measurable, agreed, realistic & timed out). This will required defined actions to be allocated to individuals, implementation dates agreed and implementation status to be monitored

Tolerate	Decision taken not to implement any additional controls / actions as assessment of potential additional controls indicates that cost of control will exceed benefits of risk reduction. When deciding on this management strategy care will need to be taken to ensure consequences of the defined risk are fully considered, e.g. potential breach of legislation, reputational loss. Current 'ongoing' controls / actions (established 'routine' controls) will need to be monitored.
Transfer	It may be that the risk can be transferred to another organisation by way of a contractual agreement (for instance the private sector) or shared with partner organisations. In some instances, a risk may be insurable either totally or in part (eg legal liability, property, motor vehicle). However, it must be remembered that responsibility for statutory functions cannot be fully transferred and the reputational implications of risks need to be managed.
Terminate	The risk may be so serious that adding controls or modifications do not reduce the risk to an acceptable level. At this stage withdrawal from the activity should be considered.

Early consideration must be given to the **COST / BENEFIT** of the 'strategy' to be adopted. To implement a solution which brings with it an unacceptable level of cost that outweighs the benefits of attempting to mitigate is clearly a poor use of resources.

The COST / BENEFIT analysis applied during the risk management process assists the decision making process. Decision makers need to be satisfied that the risks and opportunities related to proposals are fully considered. It is therefore important that all those involved in the decision making process have consciously analysed proposals submitted. Decision Making Risk Management Guidance is available **(See Appendix 3).**

In addition to the decision maker obtaining a level of assurance that the proposal and the implementation of recommendations has been subject to a robust risk assessment, it is also an important principle of good governance that decisions taken can be subjected to effective scrutiny (Accountability).

Decision makers can be held accountable for decisions both internally and externally (Inspectorates, members of the public and press -via Freedom of Information requests). They will want to see that the decision and the information used to make the decision are documented and accessible, i.e. the decision is 'informed' and 'transparent'.

5.3 MONITORING & REVIEW

Monitoring & review of risks and related actions plans will be carried out using the established forums (Performance Development Review meetings, 1:1 Performance Meetings, Team Meetings, and Management Meetings). It will be for Divisional Directors and Managers to agree the best way to communicate and consult on the maintenance of the risk management process.

The embedment of risk management processes will be supported by attendance of Risk Management personnel at least quarterly at Directorate Management Team meetings or meetings with individual Directors & Divisional Directors. These meetings will discuss Service Risk Management and the Corporate Risk Register.

Service Risk Management
In addition to the quarterly meetings, Divisional Directors will be requested to complete a Service Risk Management 'sign-off' procedure through the QPR system. This 'sign-off' is focussed on the embedment / application of the 'risk management process' within their Service area.

The Divisional Director Service Risk Management 'sign-off' on QPR will be compared against an assessment of the effectiveness of risk management within each Service using an assessment methodology which provides a 'Red', 'Amber' or 'Green' indicator for reporting purposes. The results of the 'sign-off' and the 'independent' assessment will be reported each quarter.

Council - Corporate Risk Register
Risk Owners (Directors) and Action Owners will be required to update the risk assessment and action status at the end of each quarter. Key issues will be included within the integrated report on finance, performance and risk. A separate dashboard will record all revisions to the Corporate Risk Register including information on:

- New Risks
- Closed Risks
- Risks Reduced
- Action Plan Summary Status (Complete, On-Target, Potentially Off-Target & Off-Target)

6 Monitoring of Risk Management Strategy

The Council's Corporate Audit Committee will evaluate the effectiveness of the Risk Management Strategy & Framework. This is recorded in the 'Terms of Reference' of the Committee and reports will be submitted to the Committee as detailed in the Committee Forward Plan.

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	4th February 2014	**AGENDA ITEM NUMBER**
TITLE:	**Annual Governance Review 2013/14**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Annual Governance Review Process		

1. THE ISSUE

1.1 This report has been prepared to inform the Corporate Audit Committee on the work underway and planned to complete the Annual Governance Statement 2013/14 Review.

2. RECOMMENDATION

2.1 The Committee is asked to:

2.2 Note the process & timetable for the Annual Governance Review 2013/14.

2.3 Provide any comments about the process and the input of the Committee to the review.

3. FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4. THE REPORT

4.1 Background

4.2 In 2006 the Accounts and Audit Regulations were updated and in 2007 CIPFA / SOLACE published revised guidance 'Delivering Good Governance in Local Government'. This requires all Authority's to carry out an 'Annual Governance Review' and to publish an 'Annual Governance Statement' as part of the Council's Statutory Statement of Accounts. The process adopted by the Council for producing the statement is shown in **Appendix 1**.

4.3 The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of a council's activities including in particular those designed to ensure the council is:

- implementing policies as it intends;
- delivering high-quality services, efficiently and effectively;
- meeting its values and ethical standards;
- complying with relevant laws and regulations;
- adhering to required processes e.g. risk management;
- publishing accurate and reliable financial statements and other performance information; and
- managing human, financial, environmental and other resources efficiently and effectively.

4.4 The Corporate Audit Committee is required to consider the Annual Governance Statement prior to final approval and monitor progress on the significant issues and actions identified in the previous year's statement.

4.5 The Annual Governance Statement 2012/13 was considered by the Committee in May 2013. The Statement signed at the end of June 2013 included one single 'Significant' issue:-

Conflicts of Interest/Financial Management

In one service a small number of grants and contracts had been inappropriately allocated.

In addition, to the failure to declare the conflict of interest, budgetary management and governance had not followed agreed council procedures leading to an over spend within one Cost Centre. Whilst this was an isolated set of circumstances and there was no material effect on the Council's financial position, significant resources were still required to resolve the situation.

All the necessary actions related to this issue have been implemented. The S151 Officer has reviewed and updated the budget management scheme and financial reporting of virements. The Council Solicitor has reviewed the relevant contractual arrangements and recommended improvements and options to resolve. The Head of Audit has reviewed the system for allocation of grants and contracts, whistleblowing arrangements and the system for declaration of interests.

4.6 **Annual Governance Review Process & Timetable 2013/14**

4.7 The Risk & Assurance Service will:-

- Manage the process, collating and analysing information from across the Council (Jan. to June 2014).
- Consult Senior Officers / Members to identify issues to be recorded in AGS (Feb. to June 2014).
- Report to Corporate Audit Committee / Cabinet (May / June 2014).
- Obtain sign-off by Chief Executive and the Leader of the Council and make available for inclusion in the Council's Statutory Statement of Accounts (June 2014).

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

5.2 This report has been prepared to 'inform' the Committee in line with the Committee's adopted 'Terms of Reference'. Failure to report progress regarding the Annual Governance Statement would mean that the Committee is failing in its prescribed responsibility. This would also be identified through the Councils own governance review and the Audit Commissions external audit.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

7 CONSULTATION

7.1 A copy of this report was distributed to the S151 Officer for consultation.

Contact person	*Andy Cox (01225 477316) Jeff Wring (01225 477323)*
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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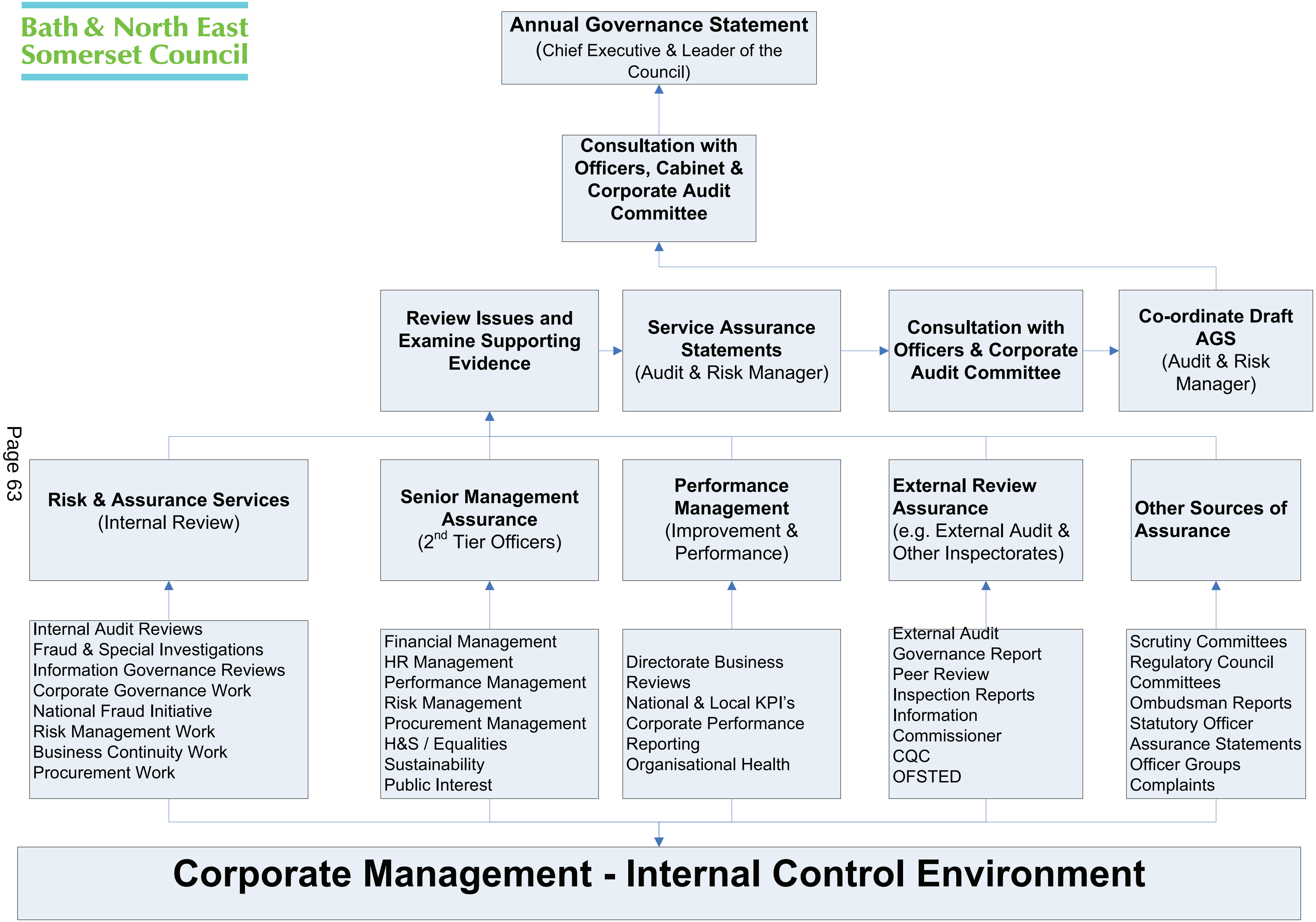
Bath & North East Somerset Council



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Bath & North East Somerset Council		
MEETING:	**Corporate Audit Committee**	
MEETING DATE:	**4th February 2014**	**AGENDA ITEM NUMBER**
TITLE:	**External Audit Update**	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – External Audit Update Report** **Appendix 2 – Grant Certification Report 2012/13** **Appendix 3 – Fraud Briefing**		

1 THE ISSUE

1.1 The External Auditor will provide a general update to the Committee on their work as well as highlighting key issues from their audit of major grants for 2012/13 and a fraud briefing.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note the various updates from the External Auditor.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications as a result of this report.

4 THE REPORT

4.1 Appendix 1 details an update of External Audit's progress against their planned work whilst Appendix 2 provides a summary report of their work in auditing significant grant claims. There are no significant issues to highlight however some recommendations have been made in relation to key grants and an update will be provide at the committee meeting.

4.2 Finally Appendix 3 provides a fraud briefing based on the results of ‘Protecting the Public Purse’. For information the committee received a full update and briefing at its recent December meeting on our approach to Fraud & Corruption.

4.3 The External Auditor will provide a fuller verbal briefing on all these areas at the meeting.

5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

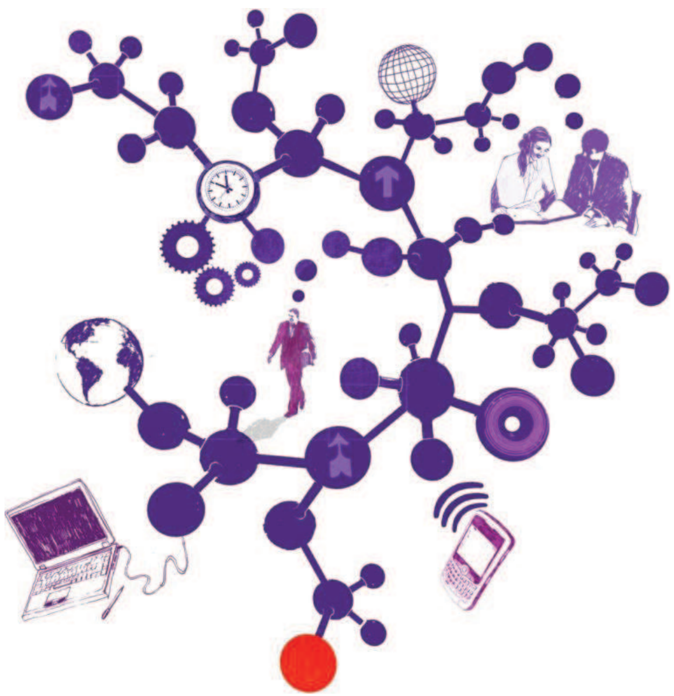
7.1 Consultation has been carried out with the Section 151 Finance Officer and Strategic Director for Resources

Contact person	Jeff Wring (01225 47323)
Background papers	Report to Corporate Audit Committee – 3rd December 2013 – Fraud & Corruption Update
Please contact the report author if you need to access this report in an alternative format	

Audit Committee Update
for Bath and North East Somerset Council

Year ended 31 March 2014

February 2014



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Contents

Introduction

This paper provides the Corporate Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you as a unitary council.

Members of the Corporate Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', '2016 tipping point – Challenging the current?', 'The developing internal audit agenda', 'Surviving the storm: how resilient are local authorities?'

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 Audit Manager.

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Progress at 23 January 2014

Work	Planned date	Complete?	Comments
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the *Council*'s 2013-14 financial statements.	May 2014	Not yet due	A plan will be issued on completion of our interim work and risk assessment. There will be separate plans for the Council and for Avon Pension Fund.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • early work for the Value for Money conclusion.	December 2013 to April 2014	Not yet due	Our interim audit is in progress. There are no issues to bring to the attention of the Audit Committee at this stage.
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Council 's accounts • proposed Value for Money conclusion.	July to September 2014	Not yet due	

Progress at 23 January 2014

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion comprises: • Continuing review of your processes for developing financial plans and savings plans • Monitoring progress with economic development projects • Monitoring progress with joint working including social care and health care integration (Better care Fund).	February 2014 – July 2014	Not yet due	
Other areas of work We will certify your Regional Growth Fund return in accordance with the Government department timetable.	January 2014	Not yet due	Work is currently in progress and will be completed in time for us to issue our report by the deadline of 5 February 2014.
Other activity undertaken Certification of (2012/13) claims and returns within the Audit Commission regime including: • NNDR pool return • Teachers pensions return • Housing Benefits return • Local Transport Plan major projects, relating to the Bath Package	February 2014	Yes	Our report on the certification of claims and returns is included on the agenda.

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Certification report 2012/13 for Bath & North East Somerset Council

Year ended 31 March 2013

December 2013

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Contents

Executive summary

Introduction

We are required to certify certain of the claims and returns submitted by Bath & North East Somerset Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified 4 claims and returns for the financial year 2012/13 relating to expenditure of £ 136.8 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the audit work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the following table and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All claims were submitted and certified by the deadlines	Green
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	Housing Benefits: there were some errors in relation to classifying overpayments. Bath Transportation Package: the claim was qualified as it included preparatory costs of £2.7m. It was not clear whether it was correct to include these costs in the claim, or a later claim, although they were clearly included in the project Bid and subsequent interim claims to the Department for Transport.	Amber
Supporting working papers	Housing Benefits: the audit trail was not always clear; for example, in relation to manual adjustments. Bath Transportation Package: supporting working papers did not include a clear reconciliation to the Council's general ledger.	Amber

The way forward

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
December 2013

Results of our certification work

Key messages

We have certified 4 claims and returns for the financial year 2012/13 relating to expenditure of £136.8 million.

The Council's performance in preparing claims and returns is summarised below:

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	4	100	4	100	↔
Claims certified on time	100%	4	100	4	100	↔
Claims certified without amendment	100%	2	50%	1	25%	↑
Claims certified without qualification	100%	2	50%	2	50%	↔

Significant findings

Our work has identified the following issues in relation to the management arrangements and certification of individual grant claims and returns:

- Overall arrangements for the management of claims remain satisfactory. However, there was insufficient management capacity in the team responsible for preparing the Housing and Council Tax Benefit Scheme claim. This resulted in delays in completing the audit, although the national deadline was met. It was necessary to complete additional testing, for example all homelessness rent rebates claims were tested, some 100 cases. In addition, the audit trail wasn't always clear; for example in relation to manual adjustments to the claim which were not supported.
- We are pleased to note there were no amendments to two of the claims audited.

Details of the certification of all claims and returns are included at Appendix A.

Recommendations for improvement are included in the action plan at Appendix B

Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £24,550. Please see Appendix C for further details.

This indicative fee did not include the work done on Local Transport Plan-Bath Transportation Package which is a new claim for 2012/13. The Audit Commission will confirm the fee early in 2014.

The Audit Commission will also confirm the final fee for certification of the Housing and Council Tax Benefits scheme grant early in the new year.

Appendices

Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value (£m)	Amended ?	Amendment (£)	Qualified ?	Comments
Housing and council tax benefits scheme	£63m	Yes	187	Yes	Our initial testing identified one case where the claimant's proof of income was not retained on file. In accordance with the guidance issued by the audit commission and DWP we extended our sample testing to 60 items in total but did not identify an further errors. The case in question was valued at £3,609. Overpayments are required to be categorised reflecting the reason or cause of the error. For example council error or claimant error. They attract different levels of subsidy to the Council from the DWP. Last year we identified errors in the classification of overpayments. This year a further four errors were identified from a total sample of 120 cases, chosen in line with the guidance. The errors totalled £64, but if extrapolated over the large population could potentially come to £160,778.
National non-domestic rates return	£59m	No	N/A	No	
Local Transport Plan-Bath Transportation Package	£7.8m	Yes	191,533	Yes	The claim was qualified as it included preparatory costs of £2.7m. From the guidance provided to us it was not clear whether it was correct to include these costs in the claim, or whether they should be included on a subsequent claim form. We note these costs were included in the project Bid and subsequent interim claims to the Department for Transport. The audit trail supporting the claim back to the ledger was complex and difficult to follow. The claim was also amended to exclude certain costs relating to a part of the scheme where planning consent remained to be confirmed (at the time of our audit). We understand these costs will be included in a later claim now planning consent is confirmed.
Teachers' Pensions return	£7.0m	No	N/A	No	

Appendix B: Action plan

Priority
High - Significant effect on arrangements
Medium – Some effect on arrangements
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure that the Housing Benefits claim is reviewed by management before it is submitted for audit. This check should include confirmation that the information included in the claim is consistent between different cells/parts of the claim.	Medium		
2	The schedule of manual adjustments to the Housing Benefits claim should be checked to make sure that the adjustments have been made to the correct cells.	Medium		
3	Bath Transportation Package: Provide a full reconciliation of expenditure included in the claim to the Council's general ledger system (Agresso)	Medium		

Appendix C: Fees

The table provides details of fees for each claim. The 2012/13 fees are subject to approval and confirmation by the Audit Commission.

Claim or return	2011/12 fee (£) *	2012/13 indicative fee (£)	2012/13 actual fee (£)	Variance year on year (£)	Explanation for significant variances
Housing benefits subsidy claim	18,799	18,640	20,845	2,046	Additional audit work required clearing queries.
National non-domestic rates return	3,784	3,070	3,070	(714)	
Teachers pension return	1,720	2,840	2,840	1,120	
Bath Transport package claim	N/A	N/A	5,235	5,235	Certification required for the first time in 2012/13
Land stabilisation	3,352	N/A	-	(3,352)	Scheme completed and further certification not required
Total	27,655	24,550	31,990	4,335	

* 2011/12 fee less 40% fee reduction applicable for 2012/13 onwards. This is shown in this way to make it comparable to the 2012/13 fee.

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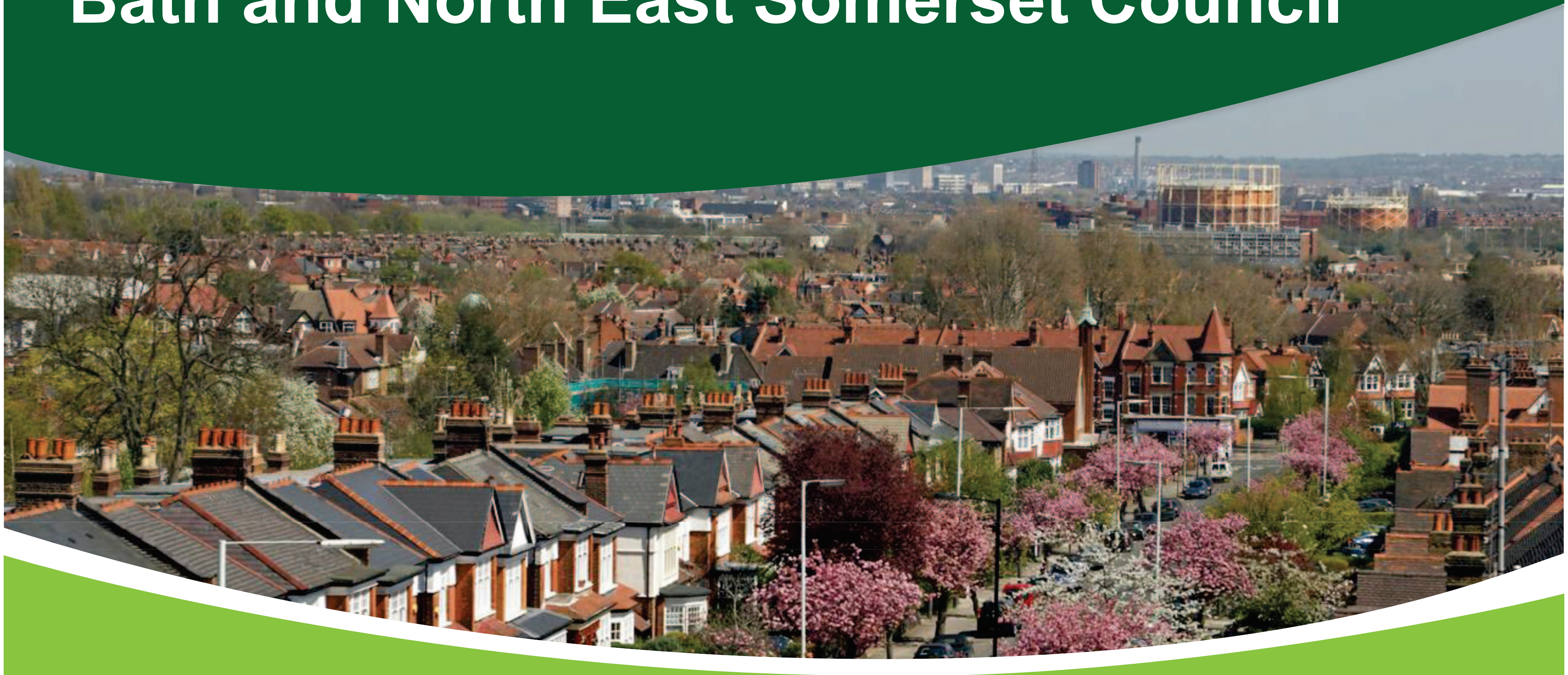
Protecting the Public Purse Fraud Briefing 2013

Bath and North East Somerset Council



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Agenda

- Introduction and purpose of your Fraud Briefing
- *Protecting the Public Purse (PPP) 2013* report – national picture
- Interpreting fraud detection results
- The local picture
- Questions?

<u>And do not forget</u>

–*Checklist for those charged with governance (<u>Appendix 2 of PPP 2013</u>)*
–*Questions councillors may want to ask/consider (<u>Appendix 3 of PPP 2013</u>)*

Introduction

- Fraud costs local government in England over £2 billion per year (*source: National Fraud Authority*)
- Fraud is never a victimless crime
- Councillors have an important role in the fight against fraud

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Purpose of Fraud Briefing at your council

- Opportunity for councillors to consider fraud detection performance, compared to similar local authorities

- Reviews current counter fraud strategy and priorities

- Discuss local and national fraud risks

- Reflect local priorities in a proportionate response to those risks

Your council is compared with the unitary authorities of the south west and south east regions

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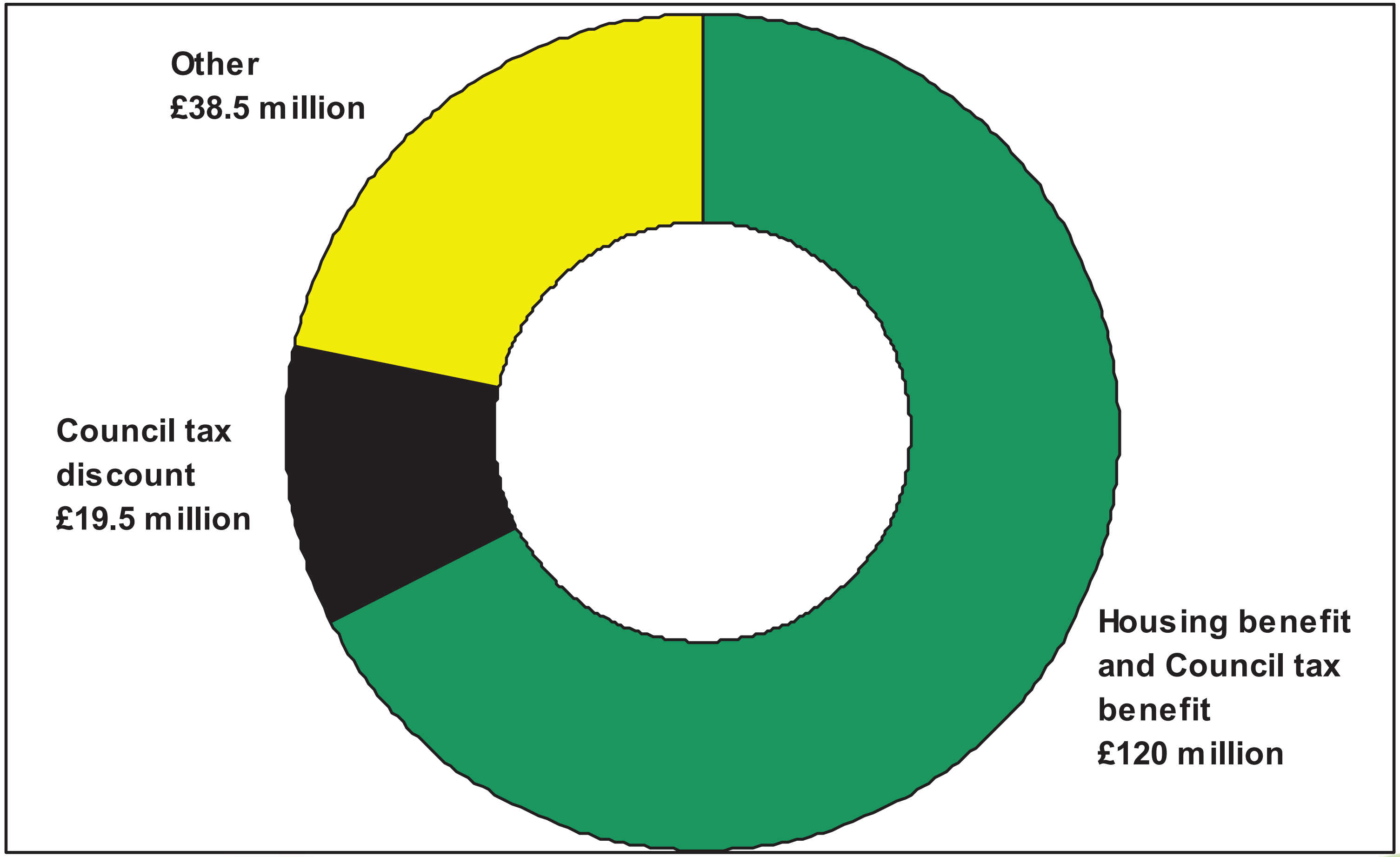
National Picture 2012/13
Total cases detected107,000, with a value of £178 million (excluding social housing fraud)



Nationally, the number of detected frauds has fallen by 14% since 2011/12 and the value by less than 1%

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Interpreting fraud detection results

- Contextual and comparative information needed to interpret results
- Detected fraud is indicative, not definitive, of counter fraud performance (Prevention and deterrence should not be overlooked)
- No fraud detected does not mean no fraud committed (Fraud will always be attempted and even with the best prevention measures some will succeed)
- Councils who look for fraud, and look in the right way, will find fraud (There is no such thing as a small fraud, just a fraud that has been detected early)

Your council is highlighted in yellow in the graphs that follow

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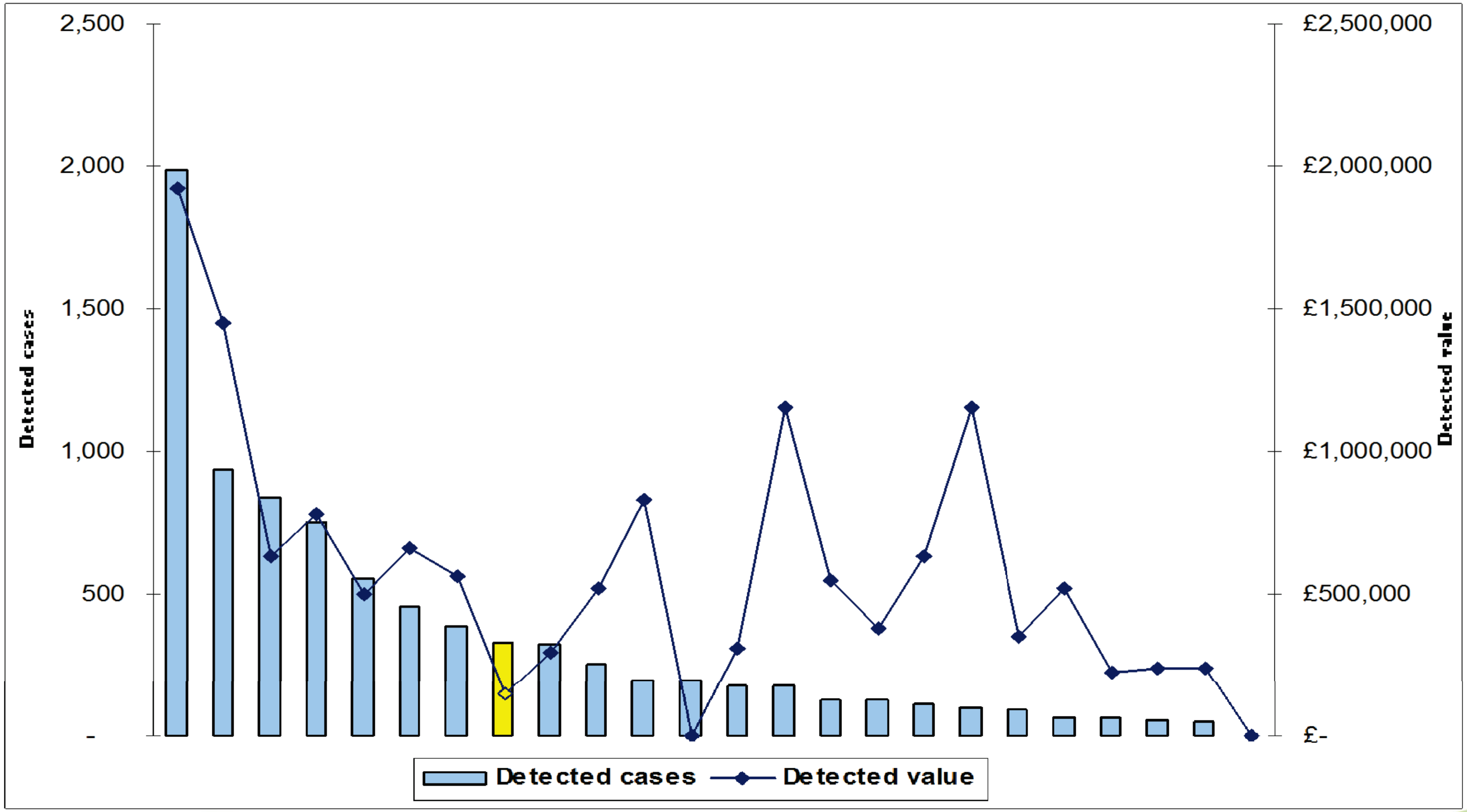
The local picture
How your council compares to other Southern unitary authorities
Total detected cases and value 2012/13 (excluding social housing fraud)



Bath detected: 329 cases, valued at £147,346

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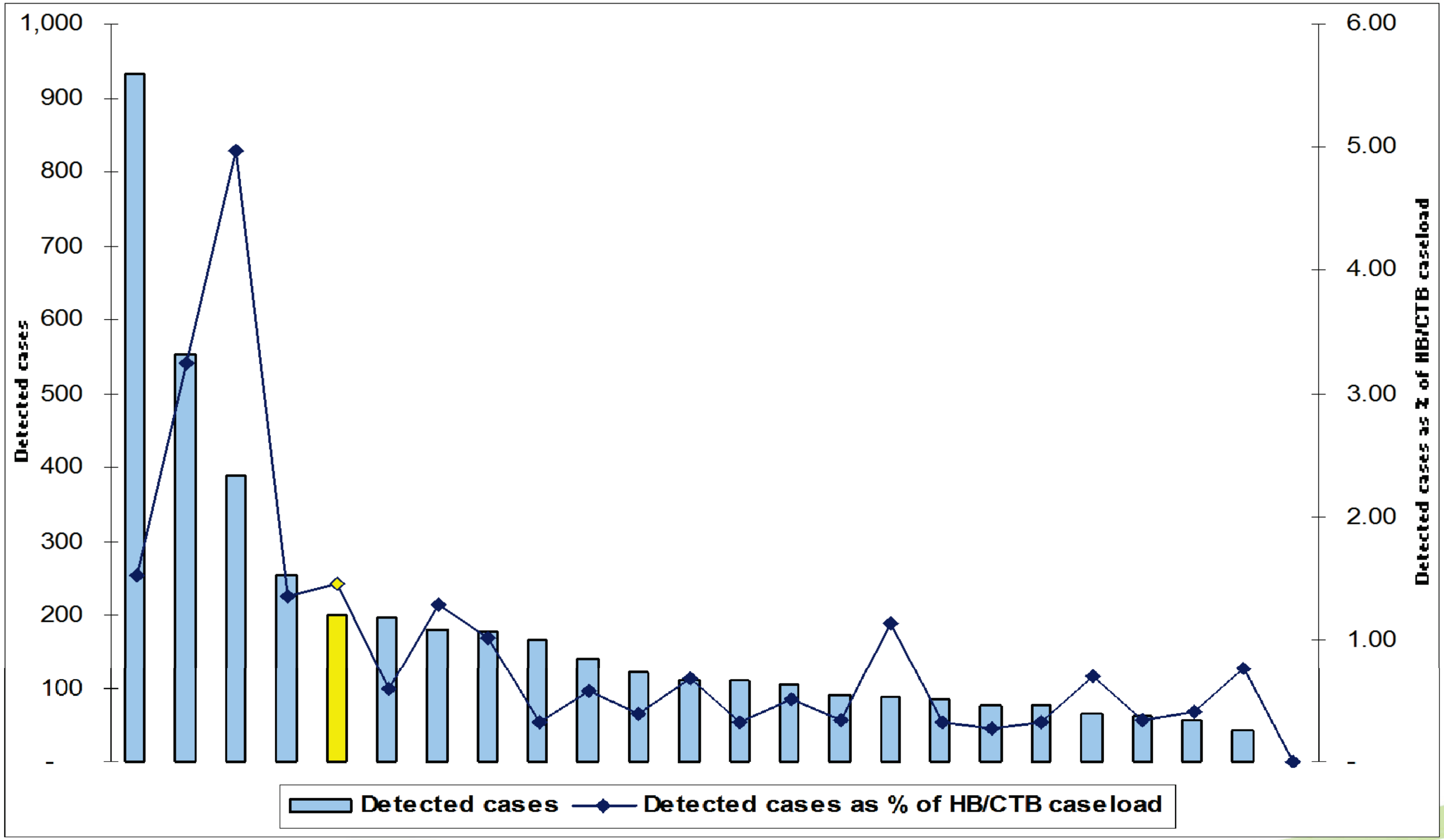
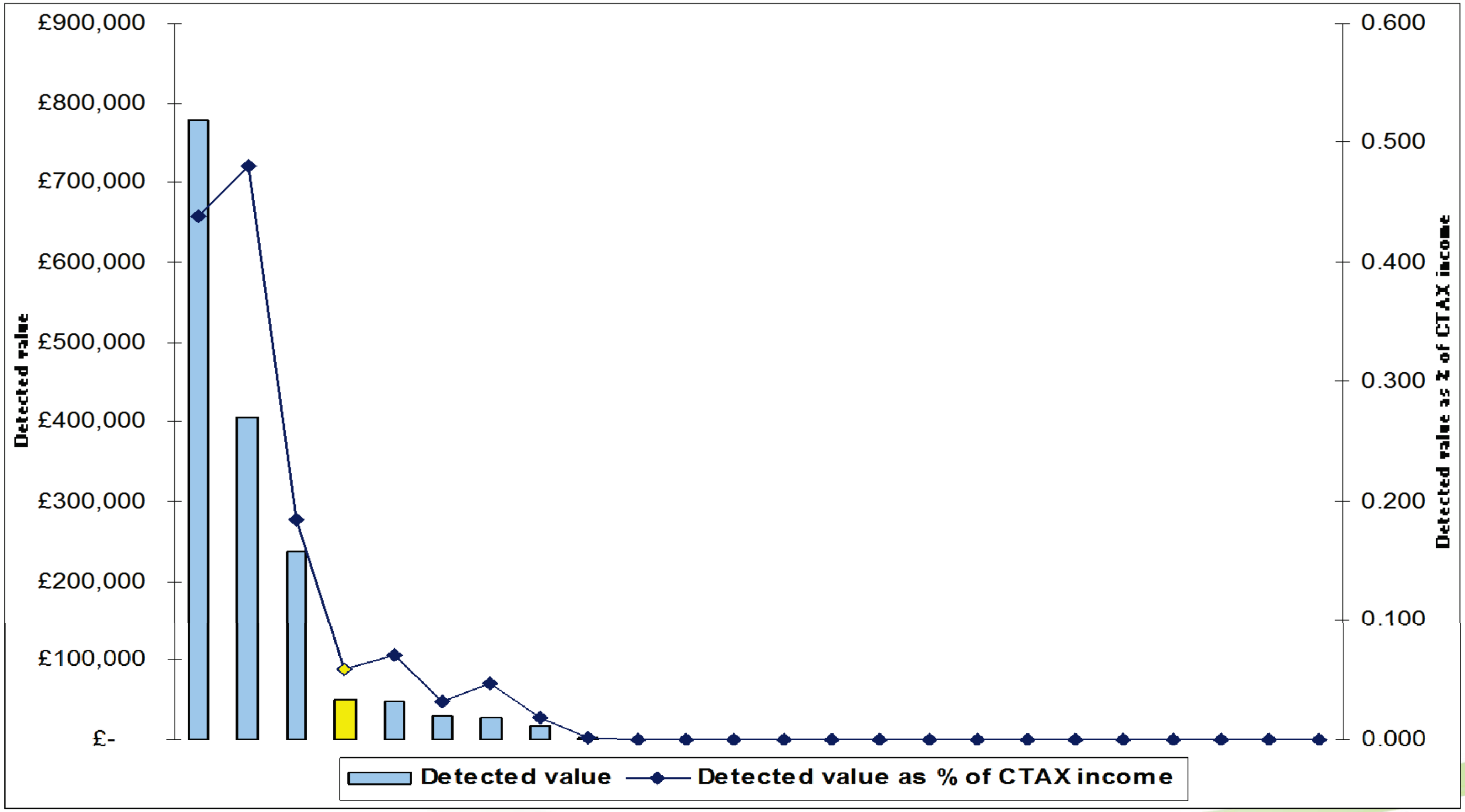
Southern unitary authorities 2012/13
Housing benefit (HB) and Council tax benefit (CTB) fraud
Detected cases and detected cases as a percentage of HB/CTB caseload



Bath detected: 201 cases, valued at £97,686

Southern average: 178 cases, valued at £470,661

Southern unitary authorities 2012/13
Council tax (CTAX) discount fraud
Detected value and detected value as a percentage of council tax income



Bath detected: 128 cases, valued at £49,660

Southern average: 147 cases, valued at £66,679

Southern councils without housing stock 2012/13
Social housing fraud

It is estimated that:

- 2 per cent of social housing stock outside London is subject to tenancy fraud;
- tenancy fraud represents the second largest financial loss to fraud in local government, costing £845 million in 2013; and
- when combined with the loss to tenancy fraud suffered by housing associations, the total value in England is £1.8 billion – making tenancy fraud five times greater than the annual loss due to housing benefit fraud.

The Prevention of Social Housing Fraud Act 2013 criminalises tenancy fraud

The legislation gives councils investigation powers and the ability to prosecute tenancy fraudsters on behalf of housing associations

Should you be using this legislation to work in partnership with local housing associations?

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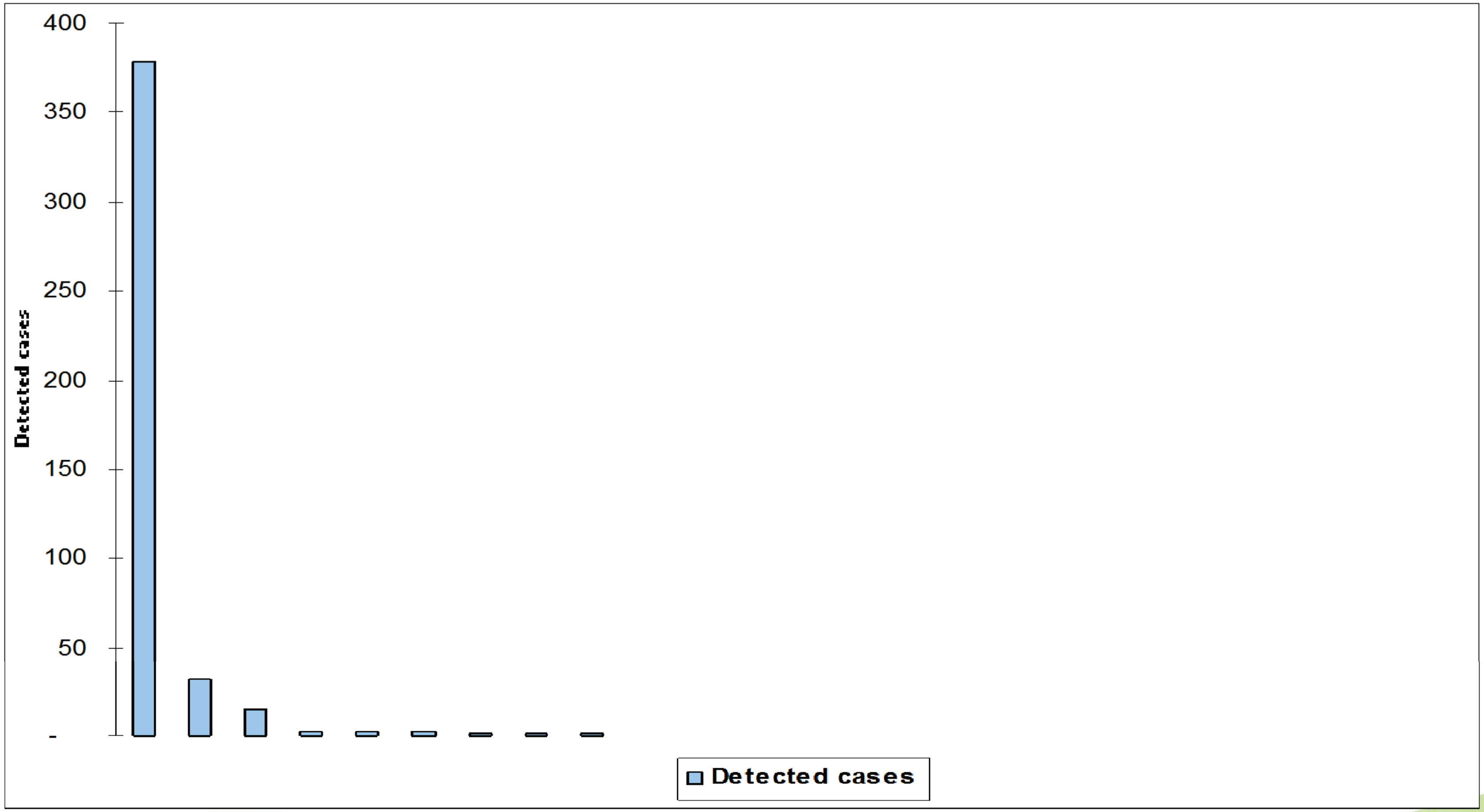
Southern unitary authorities 2012/13
Disabled parking (Blue Badge) fraud
Detected cases



Bath detected: no cases

Southern average: 18 cases

Bath and North East Somerset Council
Other frauds

- Procurement: no cases
  (Ave per Southern UAs: 1 case, valued at £12,882)

- Insurance: no cases
  (Total Southern UAs: 4 cases reported, valued at £73,500)

- Social care: no cases
  (Ave per Southern UAs: 1 case, valued at £10,933)

- Economic & Third sector: no cases
  (Total Southern UAs: no cases reported)

- Internal fraud: 1 case, valued at £1,393
  (Ave per Southern UA: 4 cases valued at £28,045)

Correctly recording fraud levels is a central element in assessing fraud risk
It is best practice to record the financial value of each detected case

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Any questions?

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