Bath & North East Somerset Council

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Date: 20 January 2016
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To: All Members of the Corporate Audit Committee

Councillors: Brian Simmons (Chair), Chris Dando, Andrew Furse, Barry Macrae and Christopher Pearce

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Dear Member

Corporate Audit Committee: Thursday, 4th February, 2016

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on **Thursday, 4th February, 2016** at **2.30 pm** in the **Council Chamber - Guildhall, Bath.**

The public meeting will be preceded by a private training session for Members to be held in the Council Chamber commencing at 12 noon. A buffet lunch will be provided for Members during the training session.

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 Guildhall Bath (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 - Reception: Civic Centre - 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. **Recording at Meetings**:-

   The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

   Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

   To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

   The Council will broadcast the images and sound live via the internet www.bathnes.gov.uk/webcast An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

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

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

7. **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

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.

Corporate Audit Committee - Thursday, 4th February, 2016

at 2.30 pm in the Council Chamber - 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 7.

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: 8TH DECEMBER 2015 (Pages 7 - 12)

9. EXTERNAL AUDIT UPDATE REPORT (Pages 13 - 36)

10. TREASURY MANAGEMENT STATEMENT AND INVESTMENT STRATEGY (Pages 37 - 62)

11. ANNUAL GOVERNANCE REVIEW (Pages 63 - 68)

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

BATH AND NORTH EAST SOMERSET COUNCIL

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 8th December, 2015, 2.00 pm

Councillors: Brian Simmons (Chair), Jasper Becker (In place of Christopher Pearce), Andrew Furse, Barry Macrae and Robin Moss (In place of Chris Dando)
Independent Member: John Barker
Officers in attendance: Tim Richens (Divisional Director- Business Support), Jeff Wring (Head of Audit West), Andy Cox (Audit Manager), Peter Cann (Audit & Corporate Governance Manager) and Tammy Weeks (Senior Auditor (Fraud))
Guests in attendance: Kevin Henderson (Grant Thornton)

64 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

65 ELECTION OF VICE-CHAIR

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

66 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillors Chris Dando and Chris Pearce. Councillor Robin Moss substituted for Councillor Dando and Councillor Becker for Councillor Pearce.

67 DECLARATIONS OF INTEREST

There were none.

68 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

70 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

71 MINUTES: 28TH SEPTEMBER 2015

These were approved as a correct record and signed by the Chair.

72 TREASURY MANAGEMENT SIX-MONTH UPDATE REPORT

The Divisional Director – Business Support presented the report, which gave details of performance against the Council's Treasury Management Strategy and Annual Investment Plan 2015/15 for the first six months of 2015/16.

He reminded Members that it is the present policy to employ cash balances to defer borrowing for as long as possible, because of the current low-interest rate environment, which was likely to persist for some time. Cash invested had earned on average only 0.47% over the period. Gross interest earned on investments had been £153k.

B&NES is the accounting body for the Local Growth Fund, whose purpose is to fund infrastructure projects across the West of England, and the Council currently holds £16.5m of grant on behalf of the Fund.

No new borrowing has taken place in 2015/2016. The Council's Capital Financing Requirement was projected to be £219m by the end of 2015/16, compared with £177m at 31st March 2015, but actual borrowing is £108,300.

B&NES is in discussion with Bristol City Council about whether the Council's allocation of Avon County Council's residual debt can be transferred to the Council so that the Council can manage it in its market portfolio rather than simply making debt repayments.

In reply to questions from Members he explained:

- the projected £219m for the Capital Financing Requirement differs from the prudential indicator of £221m, because the latter figure includes other long-term liabilities, e.g. equipment leasing

- the cash used for financing the capital programme included working cash flow, including receipts from Council Tax and business rates together with underlying revenue from cash-backed reserves

- no investments were held in Eurozone countries

In reply to a question from Member about investment in infrastructure, he explained that it needed to be understood first of all that the Council's finances are entirely separate from those of the Avon Pension Fund, and secondly that the Council's investments are governed by its investment strategy, which is presented for approval to this Committee and the Council every year. Local authority investments are also subject to strict legislation and regulations relating to non-approved investments. If cash was lost, there would be a shortfall in finance for local services, as happened a few years ago in the case of those authorities who had invested in Icelandic banks. The Council took a cautious view and restricted its investment to banks with high credit ratings; officers had to ensure that the Council's cash was as safe as possible. Investment should be distinguished from the funding of a capital programme item, which would require approval by Council.

RESOLVED to note:

1. The Treasury Management Report to 30th September 2015 prepared in accordance with the CIPFA Treasury Code of Practice.

2. The Treasury Management Indicators to 30th September 2015.

73 INTERNAL AUDIT SIX-MONTH PERFORMANCE REPORT

The Audit Manager presented the report. He reminded Members that the Internal Audit plan for 2015/16 had been presented to the Committee on 26 March. The present report summarised performance against the plan for the first six months. 40% of the plan had been substantially completed. Reasons for failure to achieve 50% in the first half-year were set out in paragraph 4.2.3 of the report. New staff would be joining the team in the new year to fill the vacancy mentioned in that paragraph.

He updated Members on the two investigations referred to the police mentioned in paragraph 4.6.1. The Crown Prosecution Service had decided not to pursue one case involving loss of cash at a library. The second case concerning fraud at a waste disposal depot did go to court but was dismissed on a technicality relating to the Police. The outcomes to these cases had been disappointing, given the amount of time and work staff had invested in them.

The joint internal audit working arrangements with North Somerset had formally commenced on 1st August this year under the banner of 'Audit West' with a five-year contract. North Somerset audit staff had transferred to B&NES and in October the transferred staff had been combined into a new structure with the B&NES team. The partnership continued to provide a range of non-core services as set out in section 4.10.2 of the report.

A Member suggested that there was little chance of completing the work programme this year, unless there was money to purchase extra staff resource. The Audit Manager replied that, as reported, a member of staff had left. Recruitment was always a lengthy process, and when new staff joined they had to be integrated in the team, and trained in the use of audit software. No appropriate staff had yet been found through agencies, though efforts were ongoing. The South West Audit Partnership had had a number of staffing issues and all alternatives were being considered.

A Member wondered whether the difficulty in recruiting audit staff was part of a wider problem with local government recruitment and retention because of successive years of caps on pay. He asked whether the expected number of high-calibre applications was being received. The Audit Manager replied that in a fact the applications received were probably above expectations. Current staff had generally been in post for some time, and there was no trend for staff to leave for better paid jobs elsewhere. The Head of Audit West said that both members of staff who had left had gone to highly-paid jobs in financial services, where in general the salary level was 50-60% above that of the public sector. There was no way the Council would ever be able to match that.

A Member asked about how the partnership arrangements were working. The Head of Audit West said that extremely favourable feedback was being received from service managers how audit was now working with them and improving their control framework. He also believed that recent job applicants might not have wished to apply, if the partnership, which could offer more varied and flexible working, had not existed. The two auditors from North Somerset said the partnership was performing well and offered staff new opportunities.

A Member asked the Audit Manager what had happened to the staff who had been the subject of the two investigations he had referred to. The Audit Manager replied that one had left and that the other had been dismissed.

RESOLVED to note progress made against the Internal Audit Plan for 2015/16.

74 DRAFT AUDIT PLAN METHODOLOGY

The Head of Audit West presented the report.

He said that when B&NES and North Somerset had commenced joint working, it had been decided to review how the two authorities developed their audit plans. They had been using different, but similar processes. An attempt was made to identify best practice; what other authorities in the South West did was examined, and there had been liaison with CIPFA. This work had been going on over the past twelve months. Factors that had to be taken into account in developing a new model were a reduction in resources and changes in organisational models and the way services were delivered. It was clear that an increased rate of change meant that continuing to use the old bottom-up methodology was unsustainable. The new methodology was in essence the one that Audit West had recommended to other councils in the South West. It was called the Reasonable Assurance Model. The eight themes of the model were illustrated on page 35 of the agenda. The model was based on a strategic top-down view of what a good or excellent organisation should look like. It was considered that if all eight themes were managed and delivered effectively, the outcome should be a good council. Examples of the areas to be assessed for each theme were listed on pages 36 and 37 of the agenda. Some things identified had never previously been on the audit plan; the top-down approach had led to a reassessment of priorities, which had revealed that in the past too much time had been spent on areas where assurance was high and performance was strong. The new model should allow more time to be spent on areas where assurance was low and performance weak. Page 38 summarised the risk assessment process.

A Member asked how it could be established that the application of the new methodology had resulted in the development of a better audit plan and better outcomes. The Head of Audit West replied that it was his formal opinion that the current methodology was not sufficiently strategic and that the new methodology was more robust, better fitted the Council's priorities and would deliver a much higher level of assurance. The Chair commented that if it was better, it should result in a reduced external audit fee.

Members debated the identification and management of risk and the role of the Section 151 Officer and the Audit Team. The Independent Member suggested that Councillors could draw on their knowledge of what was happening in the community to assist with this process. The Divisional Director – Business emphasised the statutory framework within which the Council had to work. Mr Henderson said that the external auditors looked at the Council's annual governance report to ensure it adequately reflected the audit findings and those of any other reviewing body. He believed that the new methodology might help the external auditors obtain a better understanding of the Council.

In reply to a question from a Member the Head of Audit West explained that risk arising from a change in the nature or extent of a service would be classified as inherent risk.

RESOLVED to note the proposed draft audit plan methodology.

75 FRAUD AND CORRUPTION UPDATE

The Audit Team Leader presented the report.

A Member said that the figure of £85,545 for fraud or error in B&NES discovered in the National Fraud Initiative was not meaningful in itself; it needed to be known what proportion this was of the national total. The Audit Team Leader replied that that information was not available at present, as the National Fraud Initiative 2014/15 was ongoing. The Divisional Director – Business Support suggested that a meaningful context would be provided by comparing the £73,668 of Housing Benefit fraud or error with the total B&NES spend on Housing Benefit of about £61m. The Member responded that the context was important, as it would help the Committee to decide whether the priorities set for audit investigations were appropriate.

The Chair asked what percentage of Housing Benefit fraud/error would be recovered. The Audit Team Leader said it would be 100%.

Referring to paragraph 4.4 of the report a Member said that the Electoral Roll was not as complete as it was in the past. Children, who might be wage earners, were often not being registered. The Audit Team Leader said that the Electoral Roll and Council Tax matching data was being looked again and comparison with the previous year's data might show whether there had been a fall in voter registration. People who were not on the electoral roll were sometimes identified when they contacted the Council for other reasons, e.g. to claim a benefit. The Member responded that the Electoral Roll showed a drop in the number of eighteen-year olds, suggesting that there was an increase in non-registration of those coming up to the age of eighteen.

The Chair asked about the sharing of data between councils. The Audit Team Leader explained that Electoral Roll data was not shared, but Housing Benefit data was.

A Member asked about engagement about anti-fraud policies with external organisations providing services on behalf of the Council. The Audit Team Leader said that she hoped to develop contacts with these organisations. There would also be performance reviews of these organisations, but the main emphasis would be on training Council staff who dealt with them.

RESOLVED to note:

a) the updated Whistleblowing Policy (Appendix 1);

b) the Joint Counter Fraud Action Plan (Appendix 2);

c) the B&NES Council Counter Fraud Action Plan.

76 EXTERNAL AUDIT UPDATE

Mr Henderson presented the report.

He drew attention to the fee for Housing Benefit grant certification of £18,340 (agenda page 71). The level of fee indicated that the work on this was of a similar level to that undertaken for financial year 2013/14.

He then commented on the progress report given on pages 77-79. Discussions had taken place with the Council's finance team about bringing the 2016/17 audit forward in order to prepare for the earlier mandatory date in 2017/18.

Referring to the Housing Benefit return (page 78), he said that it was expected that this year's error figure would be higher than last year's, He explained that for the Council's accounts there is a materiality threshold of £6m, but there is no materiality threshold for Housing Benefit, so every error had to be reported and everything reported counted as a qualification.

He drew attention to Grant Thornton's cross-sector review of the effectiveness of audit committees, referred to on agenda page 83.

A Member commented on materiality. Mr Henderson responded that next year transport infrastructure would have to be reported on the balance sheet. This would present a number of challenges. The total, which would have to be based on a number of estimates, was likely to be billions of pounds, and in addition the materiality threshold was changing. In the case of Housing Benefit, the Department of Work and Pensions had considered whether there should be a materiality threshold and had concluded that there should not.

RESOLVED to note the report and updates provided by the External Auditor.

The meeting ended at 3.37 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**Corporate Audit Committee**	
MEETING DATE:	**4th February 2016**	**AGENDA ITEM NUMBER**
TITLE:	**External Audit Update**	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Grant Certification Report** **Appendix 2 – External Audit Update Report**		

1 THE ISSUE

1.1 The External Auditor will provide a general update to the Committee on their work, including the results of their Grant Certification report.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note the report and updates provided by 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 the Grant Certification report for the Council which summarises all the work undertaken by Grant Thornton over the period on key grant returns.

4.2 Appendix 2 provides an update on the External Auditors work for Bath & North East Somerset Council along with references to a number of national initiatives, announcements and publications which may be of use to the Council.

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.

Contact person	Jeff Wring (01225 47323)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Grant Thornton

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20 January 2016

Dear Tim

Certification work for Bath and North East Somerset Council for year ended 31 March 2015

We are required to certify certain claims and returns submitted by Bath and 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.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015

We have certified one return, the Housing Benefit return, for the financial year 2014/15 relating to expenditure of £54.8 million. Further details of the claim certified are set out in Appendix A.

Whilst we are satisfied that the Council has appropriate arrangements to compile a complete, accurate and timely return for audit certification, there were issues arising from our certification work which we wish to highlight for your attention and which are set out below.

Issues arising:

- Numerous issues were identified with rent rebates for non-HRA properties e.g. bed and breakfast in 2013-14. The Authority provided training on this issue, but this did not occur until the latter half of the 2014-15 financial year. In accordance with HB Count rules, as the population size was below 100, work was undertaken to test all 26 cases. Of these 26 cases, we identified errors in nine of them. As a result, the claim was increased by £1,416.

- We reported in the 2013-14 qualification letter that we had identified six errors where income was incorrectly recorded or miscalculated in relation to rent allowance claims. For 2014/15, our initial testing of the initial identified one case (value £2,215) where the associated income was incorrectly recorded or miscalculated. This did not affect the underlying entitlement. However, testing of an additional 40 cases identified 12 additional errors (total net value £40) where the Authority had miscalculated the claimant's income.

- Eight cases (total value £119) where benefit had been overpaid as a result of the Authority miscalculating the claimant's income;
- Two cases (value £79) where benefit had been underpaid as a result of the Authority miscalculating the claimant's income;
- Two cases where there was no change to the underlying entitlement.

The extrapolated impact arising from these errors was £6,293.

- Testing of modified schemes by the Authority identified that nine of the 22 cases failed i.e. evidence on file did not fully support the payment of benefit. We re-tested all of the failures and a sample of the passes and concurred with the Authority's assessment. As a result, the claim was increased by £1,838.

- Testing of an initial sample of overpayments identified one case (value £109) where the Authority had incorrectly classified an overpayment as local authority error. The correct classification was claimant error. Testing of an additional sample of 40 cases identified 5 further cases where the over payment was incorrectly classified as LA error and should have been classified as claimant error. The value of the extrapolated error was £15,796.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return, teachers pensions return and pooling housing capital receipts return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £18,340. We are not varying from the indicative fee. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP.

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2014/15

Claim or return	**Value**	**Amended?**	**Amendment (£)**	**Qualified?**	**Comments**
Housing benefits subsidy claim	£54,795,841	Yes	+£3,254	Yes	Increase in rent rebates subsidy of £1,416 Increase in rent allowances subsidy of £1,838

Appendix B: Fees for 2014/15 certification work

Claim or return	2012/13 fee (£)	2013/14 fee (£)	2014/15 indicative fee (£)	2014/15 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	20,845	22,349	18,340	18,340	Nil	Not applicable

NOTE – The fee for 2012/13 is quoted as the fee for 2014/15 was based on the 2012/13 fee adjusted for the fact that the 2012/13 fee included work on council tax benefit.

Grant Thornton

Corporate Audit Committee Update

Bath and North East Somerset Council

Year ended 31 March 2016

February 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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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; and
- a number of questions in respect of these emerging issues which the Committee may wish to consider.

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 (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015
- Knowing the ropes: Audit Committee effectiveness review
- Reforging local Government: financial health and governance review 2015

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.

Barrie Morris Engagement Lead T 0117 3057708 M 0777 1976684 barrie.morris@uk.gt.com

Kevin Henderson Audit Manager T 0117 3057873 M 07780 456132 kevin.j.henderson@uk.gt.com

Progress at February 2016

Work	Planned date	Complete?	Comments
2015-16 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 Councils 2015-16 financial statements.	March 2016	Not yet due	It is our intention to present our audit plan at the March meeting of the Corporate Audit Committee.
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 • proposed Value for Money conclusion.	March 2016	Not yet due	We will provide an updated audit plan summarising any issues we identify during the interim audit. We will consider the key audit risks and the implication for our audit strategy.
2015-16 final accounts audit Including: • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion.	July – August 2016	Not yet due	We will complete the accounts audit in line with the statutory deadline. We will support the efficient production of the accounts with our series of accounts workshops, in conjunction with CIPFA, and we will specify our working paper requirements in advance of the audit.

Progress at February 2016

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015. Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion: *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.* To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties. We will be required to report by exception if we conclude that we are not satisfied that the Council has in place proper arrangements to secure value for money in the use of its resources for the relevant period.	January – August 2016	Not yet due	Now that the finalised auditor guidance is available, we will carry out an initial risk assessment to determine our approach and report this in our Audit Plan. Our work will be reported in the Audit Findings Report presented to the September meeting of the Corporate Audit Committee.

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Progress at February 2016

Work	Planned date	Complete?	Comments
Other areas of work			
Housing benefit certification	September – November 2016	Not yet due	The deadline for certification of the housing benefit return is 30 November 2016. The majority of our work will be undertaken from September onwards, but some early testing may be undertaken in April.
Regional Growth Fund	February – April 2016	Not yet due	This work falls outside of the public sector audit regime and is therefore a separate engagement. As in previous years we will undertake the work specified by the Department for Business, Innovation and Skills and provide a report to the Council. The work required in relation to Regional Growth Fund 2 will be undertaken in February, whilst the work on Regional Growth Fund 3 will be undertaken in April.

Reforging local government: Summary findings of financial health checks and governance reviews

Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.
Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

Our report is available at http://www.grantthornton.co.uk/en/insights/reforging-local-government/, or in hard copy from your Engagement Lead or Engagement Manager.

CFO Insights– driving performance improvement

Grant Thornton and CIPFA Market insight

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

We are happy to organise a demonstration of the tool if you want to know more.

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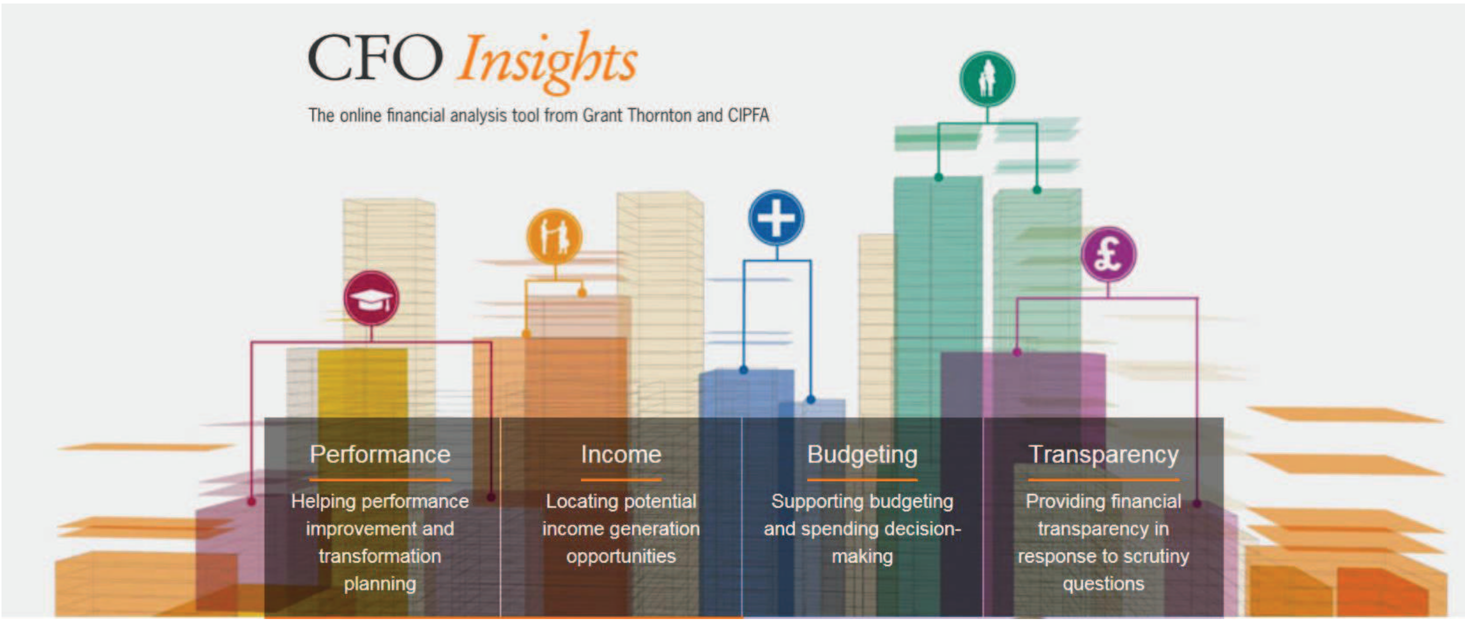

CIPFA reports and publications

Local Government Issues

Audit Panels

In December 2015 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its guidance on the establishment of auditor panels.

Under the Local Audit and Accountability Act 2014 'relevant authorities' are able to appoint their own local auditors via an auditor panel. The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1st April 2017 and larger local government bodies a year later, on 1st April 2018. In practice, this means that smaller local authorities must have appointed their local auditors by 31st December 2016 and larger principal authorities by 31st December 2017.

The guidance sets out the options available to local authorities in England for establishing an auditor panel; what form such a panel can take; the operation and functions of the panel; and the main task of the panel – that is, advising the authority in connection with the appointment of the local auditor

Better Care Fund

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Healthcare Financial Management Association (HFMA) have issued a joint report examining the progress that has been made six months into the implementation of the government's £5.3bn Better Care Fund (BCF) arrangements. While the report points out that the fund has already begun to produce improved working relationships between NHS bodies and local public services, it highlights that more needs to be done to ensure the success of the BCF. The report is based on the results of a CIPFA and HFMA joint finance staff survey of NHS bodies and local authorities representing almost a third of BCF sites, and is available from the CIPFA website - http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/better-care-fund-struggling-with-red-tape.

Accounts - public rights of inspection and challenge

Local Government issues: National Audit Office

Council accounts: a guide to your rights

The NAO has published an updated version of Council accounts: a guide to your rights on its website. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/

Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15th July 2016.

Smaller authorities must also wait until the conclusion of the thirty working day period for the exercise of public rights before publishing their accounts and the auditor's report.

The Care Act and New Burdens

Local Government Issues: Public Accounts Committee Report

Further to the NAO reports on *Care Act first-phase reforms* and *Local government new burdens* both published in June 2015, and the hearing of the Public Accounts Committee (PAC) in October 2015 on the combined topics, the PAC has now published its report on the matter. The PAC report considers the additional cost burdens on, and uncertainty for, local councils. It also considers the government's ability to identify and respond to councils that are struggling.

Its main findings are as follows:

- following the decision to delay the second phase of the Care Act, there are concerns that people will have to pay more for their care for longer before the cap on care costs is implemented. However, as the government have announced that they will not claw back the £146m of funding that it provided to councils in 2015/16 to prepare for the second phase, local authorities will not have the financial burden that was anticipated
- the DCLG have failed to adequately identify and assess new burdens on local authorities and consider their impact, creating significant uncertainty for local authorities Councils are faced with 'unfunded pressures' which are making it 'more difficult for them to meet their statutory duties and will increase pressure on council tax'
- The report calls for the Spending Review and annual finance settlements for local authorities to 'take full account of the many cost pressures local authorities face, whether or not they meet the government's definition of a new burden'. Funding must be monitored to ensure that vulnerable people do not lose out

The full report can be found at http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/publications/

Results of auditors' work 2014/15

Public Sector Audit Appointments
Following the closure of the Audit Commission on 31st March 2015, Public Sector Audit Appointments (PSAA) became responsible for appointing auditors to local Government bodies and for overseeing the delivery of consistent, high-quality and effective external audit services. The Audit Commission previously published Auditing the Accounts reports for Local Government bodies covering the 2012/13 and 2013/14 financial years. The reports summarised the results of the work of auditors appointed by the Commission at local bodies. This is the first such report published by PSAA, and it summarises the results of auditors' work at 509 principle bodies and 9,755 small bodies. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers. The timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies, according to Public Sector Audit Appointments Limited's *Report on the results of auditors' work 2014/15: Local government bodies*. • for principal bodies, auditors at 345 of 356 councils (97 per cent) were able to issue the opinion on the accounts by the statutory accounts publication date of 30th September 2015. • 97 per cent of police bodies and fire and rescue authorities also received the audit opinion by 30th September 2015. • for the second year in a row there have been no qualified opinions issued to date to principal bodies. • the number of qualified conclusions on value for money arrangements has remained consistent with the previous year at 4 per cent (17 councils, one police body and one fire and rescue authority).

IFRS 13 'Fair value measurement'

Accounting and audit issues

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local authorities need to:

- identify/ review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.

Issues for consideration

- Has the Divisional Director: Business Support reviewed the surplus assets and investment property categories to ensure what is included is correctly classified?
- Has the Divisional Director: Business Support ensured property valuers and treasury advisers are aware of the fair value definitions under IFRS 13?
- Have the accounting policies and disclosures in your accounts been updated to reflect the IFRS 13 requirements?

Highways Network Asset

Accounting and audit issues
CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset form 2016/17. These included: • Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA) • this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement • the new requirements only apply to authorities with assets meeting the definition of a single HNA asset The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available. **Issue for consideration** • Does the authority have an implementation plan to meet the revised timetable?

Better Care Fund

Accounting and audit issues

The Better Care Fund was launched on 1 April 2015 to '…drive closer integration and improve outcomes for patients and service users and carers'. The intention was to set up the fund as a pooled budget with NHS organisations and local authorities contributing into a single pot that is used to commission or deliver health and social care services.

In practice, different Better Care Fund agreements have different and sometimes complex arrangements. As a result determining the correct accounting can be difficult and there is no one size fits all approach. NHS and local government partners need to agree on accounting for such arrangements to ensure that not only are there no material errors in their own accounts but also that there are no material errors on consolidation into Whole of Government Accounts.

NHS and local government partners therefore need to consider the specific terms of their agreements and considering where the control and risks lie in line with the definition of control in IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. Individual authorities also need to consider whether they are acting as a principal or an agent. Judgement may be required, and may therefore need to be disclosed as a critical judgement in the accounts.

Although the local government timetable is moving forward, the NHS timetable is still significantly earlier so local authorities will need to include dates in their closedown plan to give NHS colleagues the information they need to prepare their accounts in good time for these deadlines.

Issue for consideration

- Has the Divisional Director: Business Support considered and agreed with partners the accounting requirements for the Better Care Fund and other pooled budget arrangements?

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Bath & North East Somerset Council		
MEETING:	**Corporate Audit Committee**	
MEETING DATE:	**4th February 2016**	
TITLE:	**Treasury Management Strategy Statement and Investment Strategy 2016/17**	
WARD:	All	
AN OPEN PUBLIC ITEM		

List of attachments to this report:
Appendix 1 - Treasury Management Strategy 2016/17
Appendix 2 - Investment Strategy 2016/17
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 was on the agenda at February 2015 Cabinet and Council, and any recommended amendments to this strategy will be reported back to Cabinet.

2 RECOMMENDATIONThe Corporate Audit committee agree that:

2.1 the actions proposed within the Treasury Management Strategy Statement (Appendix 1) are approved.

2.2 the Investment Strategy as detailed in Appendix 2 is approved.

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 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 Treasury 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 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 2016/17 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.

2016/17 Treasury Management & Investment Strategy

5.6 The Strategy Statement for 2015/16 set Treasury Indicators for 2015/16 – 2017/18, which included a total borrowing requirement at the end of 2015/16 of £184 million. At the end of December 2015, external borrowing was at £108.3 million, which may increase before the end of the 2015/16 financial year should a review of the daily cashflow highlight additional liquidity funding is required.

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 will therefore be requested that the Cabinet grant delegated authority to the Chief Finance Officer and the Cabinet Member for Finance & Efficiency to agree any changes to the indicators prior to reporting for approval at Full Council on the 16th February 2016.

5.8 The proposed investment strategy recognises the Council's position as accountable body for West of England funds, including Regional Infrastructure Fund and Local Growth Fund.

5.9 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.

5.10 The budget report, which is also on the agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.

5.11 Appendix 1 also details the Council's current portfolio position as at 31st December 2015, which shows after the netting off of the £45.5 million investments, the Council's net debt position was £62.8 million.

5.12 The 2016/17 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.

5.13 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 2015 are included in the listing in Appendix 3.

5.14 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 Finance & Efficiency, Section 151 Finance Officer 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	*2015/16 Treasury Management & Investment Strategy*
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

TREASURY MANAGEMENT STRATEGY – 2016/2017

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 2016/17 to 2018/19

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 2016/17 – 2018/19

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

Security: average credit rating

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. Unrated investments are assigned a score based on their perceived risk.

	2016/17
Minimum Portfolio average credit rating	A-

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:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposures	£229m	£268m	£300m
Upper limit on variable interest rate exposures	£141m	£180m	£212m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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	75%	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 long-term principal sum invested to final maturities over 364 days will be:

	2016/17	2017/18	2018/19
Limit on proportion of principal invested over 364 days	£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.

	2016/17	2017/18	2018/19
Operational boundary – borrowing	£229m	£268m	£300m
Operational boundary – other long-term liabilities	£2m	£2m	£2m
Operational boundary – TOTAL	£231m	£270m	£302m
Authorised limit – borrowing	£266m	£302m	£333m
Authorised limit – other long-term liabilities	£2m	£2m	£2m
Authorised limit – TOTAL	£268m	£304m	£335m

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: Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in November. Wages are growing at 2.4% a year, and the unemployment rate has dropped to 5.2%. Mortgage approvals have risen to over 70,000 a month and price annual house price growth is around 4.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was 2.1% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. Financial markets have reacted extremely negatively on concerns that the Chinese slowdown will present a significant drag on global growth. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators suggested recent global turbulence has not knocked the American recovery off course, although activity has weakened a little. The Federal Reserve raised policy rates at its meeting in December as expected, but accompanying statements suggested that the tightening cycle will be gradual and very much data dependent. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation and undertook further monetary easing late in the year.

Credit outlook: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government’s stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast: The Authority’s treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling at or below 2% several years’ time. Persistently low inflation, subdued global growth and potential concerns over the UK’s position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 1.8% level by around 0.3% a year. The uncertainties surrounding both the timing of UK and US interest rate rises, and the fallout from slower Chinese growth are likely to prompt short-term volatility in gilt yields.

Arlingclose Interest Rate Forecasts

Arlingclose central interest rate forecast – December 2015

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield*
Q1 2016	0.50	0.60	1.20	2.50
Q2 2016	0.50	0.70	1.35	2.53
Q3 2016	0.75	0.80	1.45	2.55
Q4 2016	0.75	0.95	1.55	2.58
H1 2017	1.00	1.15	1.80	2.63
H2 2017	1.25	1.40	2.00	2.68
H1 2018	1.50	1.60	2.15	2.73
H2 2018	1.50	1.70	2.15	2.78

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

The Council has budgeted for investment interest rates to remain constant at 0.45% for 2015/16 & beyond, reflecting the planned short-term duration of investments.

Local Context

Current Portfolio Position

The Council's treasury portfolio position at 31st December 2015 comprised:

	Principal	**Ave. rate**
	£m	%
External Borrowing		
Fixed rate funding – PWLB	60.3	4.45
Fixed rate funding – LA's	28	1.26
Variable rate funding – LOBOs	20	4.50*
Other long term liabilities	Nil	N/A
TOTAL GROSS EXTERNAL DEBT	**108.3**	**3.63**
Investments		
Short Term Investments	45.5	0.48
Long Term Investments	Nil	N/A
TOTAL INVESTMENTS**	**45.5**	**0.48**
NET DEBT	**62.8**	**5.92**

* 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 CHC Pooled budgets.

Borrowing Strategy

AS at 31st December 2015, the Council held £108.3 million of long-term loans (a increase of £10.3m 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 2016 is expected to be £200 million, and is forecast to rise to £266 million by March 2017 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 2016/17 is:

	£m
Not borrowed in previous years	*92*
Forecast increase in CFR	*66*
Loans maturing in 2016/17	*18*
TOTAL	***176***

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

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in

2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

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

- Public Works Loan Board (PWLB) and any successor body
- 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)
- Capital market bond investor
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

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

The 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.

LGA Bond Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be subject to specific approval in accordance with the Council’s appropriate delegation.

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 2016/17, 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.

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

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.

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

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 1st 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 0.3% of the overall assets of the Fund. These investments will operate within the framework of this 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.

Local Growth Fund (LGF)

In 2016/17 the Council, acting in its capacity as Accountable Body for the West of England Local Enterprise Partnership (WoE LEP), will receive £42.407m of Local Growth Fund (LGF) from Central Government. The grant is expected to be paid as a one-off sum in early April 2016.

The Local Growth Fund was allocated through competitive bidding, following submission of a Strategic Economic Plan by the LEP outlining local priorities to maximise growth, and is part of the wave of Growth Deals negotiated with Government, which were first announced in July 2014, and expanded in January 2015. Following the recent Spending Review, the West of England has an indicative LGF allocation totalling £149.296m to 2020/21.

The LEP determines the priority infrastructure projects to receive funding, including investment in transport improvements, superfast broadband and training facilities for young people.

The first £16.600m payment of the Fund, in April 2015, was paid to the council as un-ring-fenced s31 capital grant. To maximise local flexibility, it is not tied to specific projects; areas can flex funding between individual schemes to respond to local changes.

Investments are made in line with the council's overall Treasury Management Strategy. Interest is earmarked to fund the Council's corporate support and governance costs that come with performing the Accountable Body function for the LEP.

Approved Investment Counterparties

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

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Central Govt.	N/A	N/A	£unlimited 50 Years	N/A	N/A
AAA	£10m 5 Years	£15m 20 Years	£10m 30 Years	£10m 20 Years	£5m 20 Years
AA+	£10m 5 Years	£15m 10 Years	£10m 30 Years	£5m 10 Years	£5m 10 Years
AA	£10m 4 Years	£15m 5 Years	£10m 30 Years	£5m 5 Years	£5m 10 Years
AA-	£10m 3 Years	£15m 4 Years	£10m 30 Years	£5m 4 Years	£5m 10 Years
A+	£10m 2 Years	£15m 3 Years	£10m 30 Years	£5m 3 Years	£5m 5 Years
A	£10m 1 Year	£10m 2 Years	£10m 30 Years	£5m 2 Years	£5m 5 Years
A-	£10m 6 Months	£10m 1 Year	£10m 30 Years	£5m 1 Year	£5m 5 Years
BBB+	£5m 3 Months	£10m 6 Months	£10m 30 Years	£3m 6 months	£3m 2 Years
BBB	£5m Overnight	£5m 3 Months	N/A	N/A	N/A
None	£3m 6 Months	N/A	£10m 30 Years	£5m 1 Year	£3m 5 Years
Pooled Funds	£10m Per Fund				

The majority of the Council's investments will be made for relatively short periods and in higher 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.

Banks Unsecured

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

Current Bank Account: 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-.

Banks Secured

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

Government

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

Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.
Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

Registered Providers
Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

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

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

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 BBB+ 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.

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

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

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 £15m per country for those rated AAA and £10 million per country for those rated AA+. There is no limit on investments in the UK, irrespective of the sovereign credit rating.

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).

Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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	**60**

The time limit for long-term investments in UK Local Authorities & Local Government will be 50 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.

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 2016/17

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:

Treasury management advisers

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 2016/17 authorised borrowing limit of £266 million. 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.

Proposed Counterparty List - Unsecured Bank Investements

2016/17

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	1 Year	10	F1	A	5	P-1	A2	A-2	A
Close Brothers Ltd	1 Year	10	F1	A	5	P-1	Aa3		
Goldman Sachs International	1 Year	10	F1	A		P-1	A1	A-1	A
HSBC Bank plc	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Lloyds Banking Group									
Lloyds Bank plc	2 Years	10	F1	A+	5	P-1	A1	A-1	A
Bank of Scotland plc	2 Years	10	F1	A+	5	P-1	A1	A-1	A
Royal Bank of Scotland Group									
National Westminster Bank plc	3 Months	5	F2	BBB+	5	P-2	A3	A-2	BBB+
Royal Bank of Scotland plc	3 Months	5	F2	BBB+	5	P-2	A3	A-2	BBB+
Santander UK plc **(domiciled in UK)**	1 Year	10	F1	A	2	P-1	A1	A-1	A
Standard Chartered Bank	2 Years	10	F1	A+	5	P-1	Aa2	A-1	A+
UK Building Societies									
Nationwide	1 Year	10	F1	A	5	P-1	A1	A-1	A
Yorkshire	3 Months	5	F1	A	5	P-2	Baa1	-	-
Coventry	1 Year	10	F1	A	5	P-1	A2	-	-
Leeds	1 Year	10	F1	A	5	P-1	A2	-	-
Foreign Banks									
Australia	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Australia & New Zealand Banking Group	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Commonwealth Bank of Australia	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
National Australia Bank Group									
National Australia Bank Ltd	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Westpac Banking Corporation	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Canada	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Bank of Montreal	2 Years	10	F1+	AA-	2	P-1	Aa3	A-1	A+
Bank of Nova Scotia	2 Years	10	F1+	AA-	2	P-1	Aa2	A-1	A+
Canadian Imperial Bank of Commerce	2 Years	10	F1+	AA-	2	P-1	Aa3	A-1	A+
Royal Bank of Canada	3 Years	10	F1+	AA	2	P-1	Aa3	A-1+	AA-
Toronto-Dominion Bank	3 Years	10	F1+	AA-	2	P-1	Aa1	A-1+	AA-
Finland	**Sovereign Rating**			**AAA**			**Aaa**		**AA+**
Pohjola Bank OYJ-A SHS	2 Years	10	F1	A+	5	P-1	Aa3	A-1+	AA-
Germany	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Deutsche Bank AG - Registered	3 Months	5	F1	A	5	P-2	A3	A-2	BBB+
Landesbank Hessen-Thuringen	1 Year	10	F1+	A+		P-1	A1	A-1	A
Netherlands	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Bank Nederlandse Gemeenten	5 Years	10	F1+	AA+	1	P-1	Aaa	A-1+	AAA
Cooperatieve Centrale Raiffe	2 Years	10	F1+	AA-		P-1	Aa2	A-1	A+
ING Bank NV	1 Year	10	F1	A	5	P-1	A1	A-1	A
Singapore	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Development Bank of Singapore Ltd	3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
United Overseas Bank Ltd	3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Sweden	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Svenska Handelsbanken	3 Years	10	F1+	AA-	2	P-1	Aa2	A-1+	AA-
Nordea Bank NV	3 Years	10	F1+	AA-	2	P-1	Aa3	A-1+	AA-
Switzerland	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Credit Suisse AG	1 Year	10	F1	A	5	P-1	A1	A-1	A
USA	**Sovereign Rating**			**AAA**			**Aaa**		**AA+**
J P Morgan Chase Bank NA	2 Years	10	F1+	AA-	5	P-1	Aa3	A-1	A+
Supernational									
Council of Europe Development	5 Years	10	F1+	AA+	-	P-1	Aa1	A-1+	AA+
European Bank for Reconstruction & Dev	5 Years	10	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
Kreditanstalt Fuer Wiefrauf	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.

<table>
<tr><th colspan="3">Bath & North East Somerset Council</th></tr>
<tr><td>MEETING:</td><td colspan="2">Corporate Audit Committee</td></tr>
<tr><td>MEETING DATE:</td><td>4th February 2016</td><td>AGENDA ITEM NUMBER</td></tr>
<tr><td>TITLE:</td><td colspan="2">Annual Governance Statement</td></tr>
<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Appendix 1 – Annual Governance Review – Outline of Framework.</td></tr>
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1 THE ISSUE

1.1 The aim of the report is to update the Committee on the Annual Governance Review and allow the Committee to contribute to the process which will result in the publication of the Council's Annual Governance Statement 2015/16.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note progress of the review and raise any issues for consideration as part of the Annual Governance Review.

3 FINANCIAL IMPLICATIONS

3.1 A robust review of the Council's internal control and governance framework and the subsequent implementation of action plans form an essential part of the financial management framework.

4 THE REPORT

4.1 In 2007/2008 the Council revised its Code of Governance and its methodology for producing an Annual Governance Statement based on the Accounts & Audit Regulations and the CIPFA / SOLACE `Delivering Good Governance in Local Government'.

4.2 The methodology requires:-

- The involvement of all Divisional Directors
- The use of Service Specialists to review evidence with relation to :-
    - Finance
    - Strategic Performance
    - Corporate Communications
    - Information Governance
    - Human Resources
    - Health & Safety
    - Environmental Impact & Sustainability
    - Equalities & Diversity
    - Safeguarding
    - Procurement

4.3 The review of governance covers all significant corporate systems, processes and controls, spanning the whole range of Council activities, including in particular those designed to ensure:

- Council policies are implemented;
- Quality services are delivered efficiently and effectively;
- Council's values and ethical standards are met;
- Compliance with laws and regulations;
- Financial statements and other published performance information are accurate and reliable;
- Human, financial, environmental and other resources are managed efficiently and effectively.

4.4 The 2015/16 Annual Governance Review has commenced and by the middle of February it is hoped that all Divisional Directors have had the opportunity to contribute to the review and highlight any potential issues for consideration for reporting in the Annual Governance Statement.

4.5 In addition to consulting ‘key’ Corporate Officers and Divisional Directors, Strategic Directors (including the Chief Executive) and Cabinet will be asked for their input.

4.6 The Annual Governance Statement is a ‘management’ statement and as such is signed by the Chief Executive and Leader of the Council.

4.7 In deciding which issues are `significant' Councils are required to exercise sound judgement and guidance is limited to that provided by the Chartered Institute of Financial Accounts (CIPFA) as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective;
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the business;
- The issue has led to a material impact on the accounts;
- The audit committee, or equivalent, has advised that it should be considered significant for this purpose;
- The 'Head of Internal Audit' has reported on it as significant, for this purpose, in the annual opinion on the internal control environment;
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
- The issue has resulted in formal action being taken by the Chief Financial Officer and / or the Monitoring Officer.

4.8 Work on the governance review will continue following this Committee meeting. Key milestones in finalising the Annual Governance Statement are:

1) Report to Audit Committee.

2) Report to Senior Management Team.

3) Chief Executive & Leader of the Council sign the Statement linked to the approval of the Annual Accounts.

4.9 As indicated above the Statement will be signed at the end of September. It should be noted that a requirement of the Accounts and Audit Regulations 2015 is that the 2017/18 audited Statement of Accounts (including the annual governance statement) will be published by the earlier date of 31st July 2018. Based on this requirement we have already amended the governance review processes to complete the work within the revised timescales.

4.10 The implementation of Annual Governance Statement actions, if there are any significant issues, will be monitored by the Corporate Audit Committee.

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. No significant issues to report for the Committee.

6. EQUALITIES

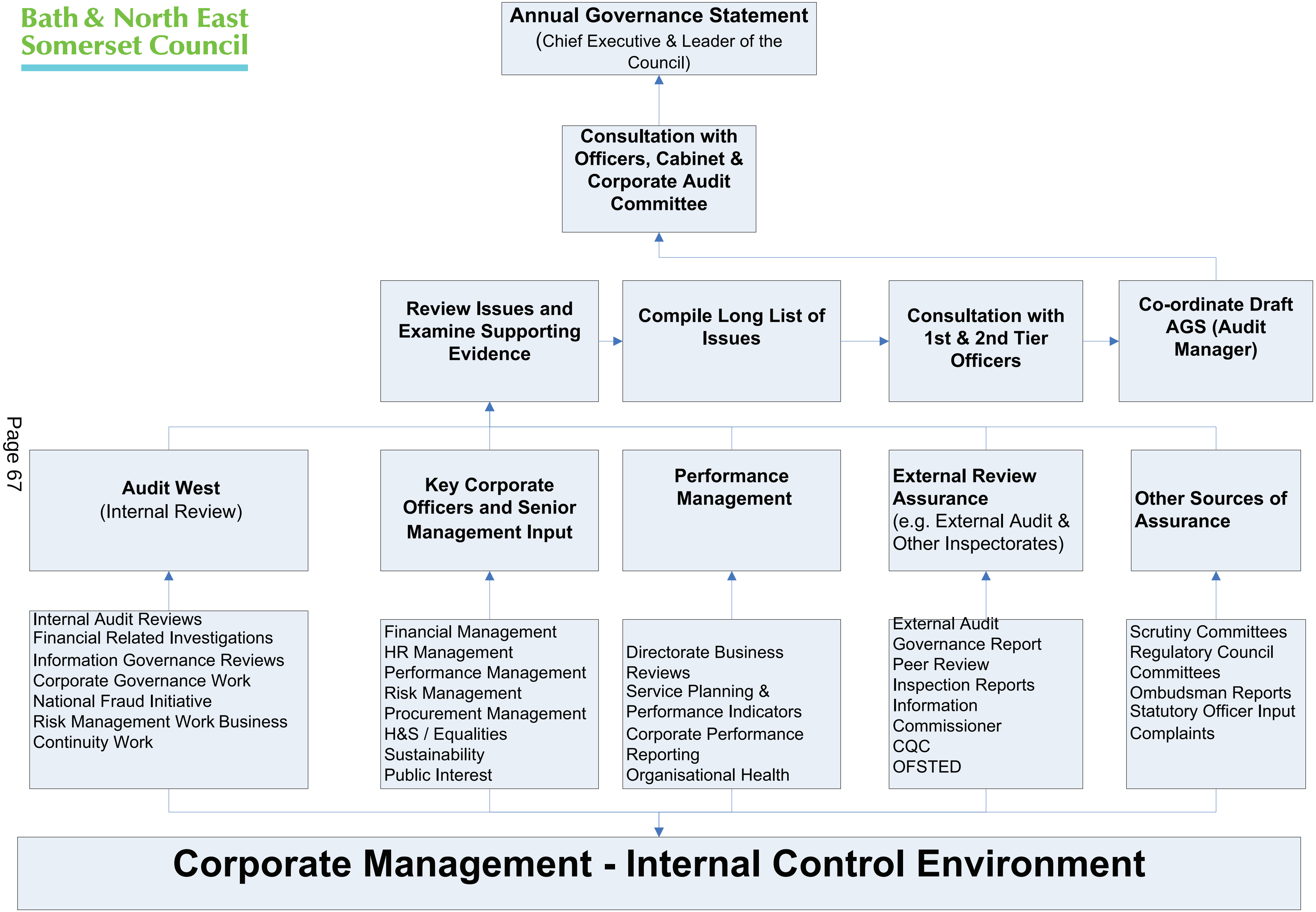
6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7. CONSULTATION

7.1 The report was consulted on with the S151 Officer for comment.

Contact person	Andy Cox (01225 477316) Jeff Wring (01225 477323)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council



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