

Corporate Audit Committee

Date: Thursday, 7th February, 2019
Time: 2.00 pm
Venue: Kaposvar Room - Guildhall, Bath

Agenda

To: All Members of the Corporate Audit Committee

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

Independent Member: John Barker

Chief Executive and other appropriate officers

Press and Public

Chief Executive and other appropriate officers
Press and Public

The agenda is set out overleaf.



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NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

Paper copies are available for inspection at the **Public Access points:-** Reception: Civic Centre - Keynsham, Guildhall - Bath, The Hollies - Midsomer Norton. Bath Central and Midsomer Norton public libraries.

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

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<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

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at 2.00 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 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: 4TH DECEMBER 2018 (Pages 5 - 10)

9. DEBT MANAGEMENT POLICY - PRESENTATION

10. EXTERNAL AUDIT UPDATE (Pages 11 - 48)

11. TREASURY MANAGEMENT AND INVESTMENT STRATEGY (Pages 49 - 80)

12. RISK MANAGEMENT STRATEGY (Pages 81 - 98)

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

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 4th December, 2018, 2.00 pm

Councillors: Brian Simmons (Chair)

Independent Member: John Barker

Officers in attendance: Donna Parham (Interim Director - Finance), Jeff Wring (Head of One West) and Andy Cox (Head of Audit and Assurance (One West))

Guests in attendance: Peter Barber (Grant Thornton) and Sophie Morgan-Bower (Grant Thornton)

12 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

13 ELECTION OF VICE-CHAIR

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

14 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Andrew Furse and Councillor Barry Macrae. Councillor Cherry Beath substituted for Councillor Furse.

15 DECLARATIONS OF INTEREST

There were none.

16 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair asked for clarification about a proposal to merge the Corporate Audit Committee with the Resources Policy Development and Scrutiny Panel which had been discussed at a meeting of the PDS Chairs and Vice-Chairs. He was concerned about this, as it was his understanding that there was a legal requirement for the Council to have a separate Corporate Audit Committee and that that there would be a conflict of interest if the audit and scrutiny functions were carried out by the same panel. The Head of One West said that he had only just learned about this. As far as he understood it, the PDS Chairs and Vice-Chairs wanted to make recommendations to the working group that is considering changes to the Council's PDS Panels. He was aware that the Chair of this Committee had requested a discussion about the implications with relevant officers. There is an ongoing review of the role and remit of the Policy Development and Scrutiny Panels taking into account the future reduction in the number of Councillors from 65 to 59. There had been proposals to merge activities and reduce the number of PDS Panels to three from the current five, but nothing had been decided yet. Mr Barber said that in his experience councils varied in how they implemented corporate audit arrangements, sometimes allocating them to a governance committee or a finance committee, but he had not seen an example of a Council combining the corporate audit function with the scrutiny function.

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

There were none.

18 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

19 MINUTES: 30 JULY 2018

These were approved, subject to the following amendments on page 4 (agenda page 8):

first and second paragraphs:

‘Interim Director – Resources’ should be ‘Interim Director – Finance’.

second paragraph

line 4: ‘would’ should be ‘could’

line 5: ‘will’ should be ‘may’

20 FINANCIAL REGULATIONS UPDATE - PRESENTATION

The Head of One West distributed copies of PowerPoint slides to Members. These are attached as an appendix to these minutes.

He began by reminding Members that it was one of the duties of the Committee, as set out in its Terms of Reference:

“to review periodically the Council's key financial governance procedures, i.e. Financial Regulations, Contract Standing Orders, Anti-Fraud & Corruption Policy and to recommend any necessary amendments”.

The new Financial Regulations had been approved at the September meeting of the Council, before which a briefing had been given to the Chair of the Committee. It had been agreed that a briefing on the new Regulations would be given to Members at the next meeting of the Committee.

The Financial Regulations can only be amended by full Council, but they are subject to review by the Corporate Audit Committee. They form part of the terms and conditions of employment of all officers in the Council.

The Interim Director – Finance summarised the key changes in the new Regulations.

A Member asked about the management of bad debts. The Interim Director – Finance replied that the Member would recall that a question had been put to Council about the use of bailiffs. The full bad debt policy would be presented to the Committee for approval in due course.

Members noted the amendments to allow the Cabinet some flexibility in utilising unearmarked General Balances, provided that the Balances were within the permitted range. The ranges are set by full Council as part of the budget process and it is the higher end of the range that forms part of the budget total.

A Member asked how the various parts of the financial framework could be kept aligned and consistent in times of high volatility, such as post-Brexit for example. He suggested changes needed to be done on a prospective rather than a retrospective basis. The Interim Director – Finance replied that each part of the framework was reviewed for consistency with the other parts. That is why internal consultations were held on them. She was not sure that this required them all to be reviewed at the same time. It might be that in times of volatility amendments to parts of the framework would be required more often.

RESOLVED to note the information about the Council's Financial Regulations 2018.

21 TREASURY MANAGEMENT SIX MONTH UPDATE

The Interim Director – Finance presented the report.

The average rate of return on investments for 2018/19 was detailed in Appendix 3.

The Council's Capital Financing Requirement at 31st March 2018 was £247.1m with a projected total of £434m by the end of 2018/19 based on the capital programme approved at February 2018 Council. Cash balances are being used to finance capital spending in preference to borrowing. This makes sense while interest rates on cash on deposit are so low. Appendix 6 shows that there was a favourable variance in relation to capital financing April-September.

In response to questions from Members the Interim Director – Finance stated:

- The Central Library refurbishment was still in the capital programme, though the project was on hold and was being reviewed.
- The cost of repaying or rescheduling loans whose interest rates had reverted to the variable rate of 4.5% was currently greater than the cost of continuing with them.
- The period up to Brexit and beyond could well be turbulent. The Council will monitor developments and changes in interest rates with advice from Arlingclose and seek to diversify its borrowing and to borrow at the lowest rates available.

A Member noted that the Bank of England's response to the result of the European Referendum had been to reduce base rates; he suggested that this might happen after Brexit and might provide the Council with an opportunity to reschedule its loans at a low cost. The Interim Director – Finance assured the Member that the Finance team were monitoring developments closely. The aim was always to borrow at the most advantageous rate possible.

RESOLVED to note:

1. the Treasury Management Report to 30th September 2018, prepared in accordance with the CIPFA Treasury Code of Practice;
2. the Treasury Management Indicators to 30th September 2018.

22 EXTERNAL AUDIT UPDATE REPORT

Mr Barber presented the External Audit Letter. He reported that there would be changes to fees for additional work as follows:

- Teachers' Pension: £810 additional fee: final fee will be £5,010.
- Housing Benefit: £1,257 additional fee: final fee will be £18,017.

These additional fees had been discussed with the Interim Director – Finance. The Housing Benefit fee was subject to approval by Public Sector Audit Appointments.

A Member noted that two Councils had identified as a risk to the provision of social care a potential shortage of staff from eastern Europe as a consequence of Brexit. This could mean short-term financial savings, or a great increase in costs if staff had to be found from other sources. He asked whether a similar risk should be registered for B&NES in the short, medium term and longer terms and whether there was any Brexit contingency in the Council budget. The Interim Director – Finance replied that the potential impact of Brexit had been taken into account in financial planning. The Member explained that he was not just referring to financial risk, but also reputational risk if the Council could not continue to deliver an efficient service. He suggested that the risk needed to be assessed in the local context in terms of its impact on the medium-term financial plan.

Mrs Morgan-Bower presented the External Audit Update and Sector Progress Report.

RESOLVED to note the report and appendices.

23 INTERNAL AUDIT SIX MONTH UPDATE

The Head of Audit and Assurance presented the report and drew attention to the performance dashboard on agenda page 70. Members noted that only 32% of the plan was substantially complete at the half-way point of the year and the reasons given for this in paragraph 4.2.2 of the report.

A Member noted the reference in paragraph 4.2.4 to assistance obtained from Devon Audit Partnership to help manage the shortfall of available audit days because of a staff vacancy and asked whether there was progress to formalising a working relationship between the Devon Partnership and One West. The Head of One West explained that there was a memorandum of understanding between the two partnerships, which facilitated the sharing of resources. There was also an exchange of best practice and audit methodologies. There were ongoing discussions about recruitment options for the future to maximise efficiencies.

A Member noted that the Committee had been promised a presentation on risks to contracted-out services in the wake of the collapse of Carillion. The Head of One West replied that on company vetting and contract monitoring would be given at the next meeting of the Committee.

RESOLVED to note the progress made against the Internal Audit Plan for 2018/19.

The meeting ended at 3.23 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	7th February 2019	AGENDA ITEM NUMBER
TITLE:	External Audit Update	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – External Audit Grant Certification Letter</p> <p>Appendix 2 – External Audit Plan for Council</p> <p>Appendix 3 – External Audit Plan for Pension Fund</p>		

1 THE ISSUE

- 1.1 The External Auditor will present their audit plan for the Council and Pension Fund, Grant Certification letter and provide a general update to the Committee on their work against their existing plan.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note the report.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no new financial implications from this report.

4 THE REPORT

- 4.1 Appendix 1 details the results of External Audit's work on certifying the Housing Benefit subsidy claim.
- 4.2 Appendices 2 and 3 detail the audit plan for the Council and Avon Pension Fund.
- 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

An instinct for growth™

Donna Parham
Section 151 Officer
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11 December 2018

Dear Donna

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Certification work for Bath and North East Somerset Council for year ended 31 March 2018

We are required to certify the Housing Benefit subsidy claim 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) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £38.642 million. Further details are set out in Appendix A.

As with previous years, we identified a large number of issues from our certification work, further details are provided in Appendix A. A number of the errors from the extended testing this year are consistent with errors found in previous years. There was one new area where we identified errors, in relation to Working Tax Credit Disregard. We draw to your attention that the extrapolated financial impact on the claim, which we have reported to the DWP, was relatively significant to the total subsidy receivable.

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £16,760. Due to the additional work required to address the issues we identified, we are seeking a variation of £1,257, which will make the actual fee for the year £18,017, which is subject to confirmation from PSAA. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value	Amended	Amendment value	Qualified	Comments
Housing benefits subsidy claim	£38,642,455	Yes	£(8,573)	Yes	See below

Findings from certification of housing benefits subsidy claim

Cross cutting qualification issues

Our review of the uprating of system parameters identified a number of instances where income categories were uprated to two penny per week above expectations, due to the Northgate system applying a percentage uprating. This income is fully disregarded when calculating housing benefits, hence there is no impact of this error on subsidy claimed.

Our review of the uprating of system parameters also identified five categories of unearned income where the 2016/17 allowance rates continued to be applied. This error was due to the system not uprating incomes where the default marker was not selected. Three income types were fully disregarded when calculating housing benefits, hence there is no impact of this error on subsidy claimed. In relation to ESA(SC) and ESA(WR), further testing was undertaken and a manual amendment of £23.55 was made to the claim.

Earned income

We identified errors in one class of benefit where earned income was incorrectly stated. As a result of the errors, claimants' income was misstated and benefit miscalculated. We identified:

- 5 errors out of 60 cases where earned income was incorrectly stated in respect of Rent Allowances, leading to an extrapolated overpayment of £25,779.

Childcare costs

We identified errors in one class of benefit where childcare costs were incorrectly stated. As a result of the errors, claimants' income was misstated and benefit miscalculated. We identified:

- 8 errors out of 60 cases where childcare costs were incorrectly stated, or the Authority did not have sufficient evidence to support the childcare costs, in respect of rent allowances, leading to an extrapolated overpayment of £40,511.

State and Occupational Pension

We identified errors in one class of benefit where state and occupational pensions were miscalculated, or did not have sufficient evidence to support one or more elements of pension income. As a result of the errors, claimants' income was misstated and benefit miscalculated. We identified:

- 5 errors out of 60 cases where state and occupational pensions were miscalculated, in respect of Rent Allowances, leading to an extrapolated overpayment of £95,224.

Working Tax Credit Disregard

We identified errors in one class of benefit where the Authority had applied working tax credit disregard when the claimant did not satisfy the criteria for receiving the disregard. As a result of the errors, claimants' income was misstated and benefit miscalculated. We identified:

- 2 errors out of 60 cases where the Authority had applied working tax credit disregard to the claim when the claimant did not satisfy the criteria for receiving the disregard, in respect of Rent Allowances, leading to an extrapolated overpayment of £25,779.

Claimants transferring to Universal Credit

We identified errors in one class of benefit where claimants had moved to universal credit, and an overpayment occurred as a result of late notification of the change. The Authority classified the subsequent overpayment as an eligible overpayment, but should have classified the overpayment as DWP error. As a result of the errors, expenditure was classified incorrectly. Officers were able to review the whole of the population and we agreed the (net) amendment of £1,280 required to the claim as a result.

Rent Rebates

We identified a number of errors within the population of Rent Rebates. Officers were able to review the whole of the population and we agreed the (net) amendment of £259 required to the claim as a result.

Observations

We identified errors in one class of benefit where no impact on subsidy was noted and therefore have not been classified as errors for subsidy purposes.

- 2 cases where benefit was underpaid due to the Authority failing to update the rental liability, in respect of Rent Allowances.
- 2 cases where there was no impact on subsidy due to the Authority failing to update the rental liability, in respect of Rent Allowances.

Recommended actions for officers

We recommend that the Council as part of its internal quality assurance process, should increase its focus or level of testing in respect of the areas where we identified errors from our testing.

Appendix B: Fees for 2017/18 certification work

Claim or return	2015/16 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£16,760	£16,760	£18,017	£1,257	Additional testing required for new errors (Working Tax Credit) and a further 100% test for classification of Universal Credit which resulted in amendment.
Total	£16,760	£16,760	£18,017	£1,257	

External Audit Plan

Year ending 31 March 2019

Bath and North East Somerset Council
January 2019

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**Your key Grant Thornton
team members are:**

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Section

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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 planning 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 the Authority or all 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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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Bath and North East Somerset Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Bath and North East Somerset Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Audit Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Corporate Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

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

Introduction & headlines

Group Accounts	The Authority is considering whether it is required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings.
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"> • Income from 'Other Fees and Charges' • Management override of controls • Valuation of investment property • Valuation of land and buildings • Valuation of Pension Fund net liability • Accounting for the creation of the subsidiary Aequus Developments Ltd <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
Materiality	We have determined planning materiality to be £7.524m (PY £n/a due to non-consolidation of Aequus Developments Ltd) for the group and £7.524m (PY £7.524m) for the Authority, which equates to 2% of the Authority's prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.376m (PY £0.376m).
Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none"> • The Council's Medium Term Financial Plan • Aequus Developments Ltd
Audit logistics	<p>Our interim visit will take place in February 2019 and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be £95,351 (PY: £123,832) for the Authority, subject to the Authority meeting our requirements set out on page 16.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

External Factors

The wider economy and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures and demand from residents.
- As at month 9 Bath and North East Somerset Council is forecasting a revenue budget outturn for 2018/19 of £4.1m over budget, of which the majority is due to delays in savings delivery (£1.8m), and additional demand for Children's Services (£2.2m).
- The Council estimate that Revenue Support Grant will have reduced from £20.5m in 2015/16 to £0 by 2020/21 and the Council estimates that savings of £50.3m will be required over the next five years.
- In 2019/20, Bath and North East Somerset Council is forecasting an annual funding gap of £15.98m.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Internal Factors

New audit methodology

- We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. This takes advantage of advances in technology using new cloud based software developed in partnership with Microsoft.
- We can ensure that our resources and testing are best directed to address the risks we identify in an effective way.

Aequus Developments Ltd

- Activity has significantly increased within Aequus Developments Ltd in 2018/19, a subsidiary held to develop, deliver, own and manage properties for the Council.
- In 2017/18, the subsidiary's activity was not material to the Council and Group Accounts were not required.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion. Specifically, we will review performance against your 2018/19 budget and the robustness of your Medium Term financial planning.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and the group and will review related disclosures in the financial statements.
- We will continue the Council's progress against previously agreed recommendations within the 2017/18 Audit Findings Report as part of our work.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs.
- We will ensure that our resources and testing are best directed to address your risks in an effective way.
- We have invited members of your Finance Team to our Local Government Chief Accountant Workshop, due to take place on 7 February 2019 in Bristol.
- The Council will need to consider whether it is required to prepare group financial statements that consolidate the financial information of its subsidiary undertakings, Aequus Developments Ltd.
- We draw your attention to our responses on page 7 and page 14.

Audit approach

Use of audit, data interrogation and analytics software

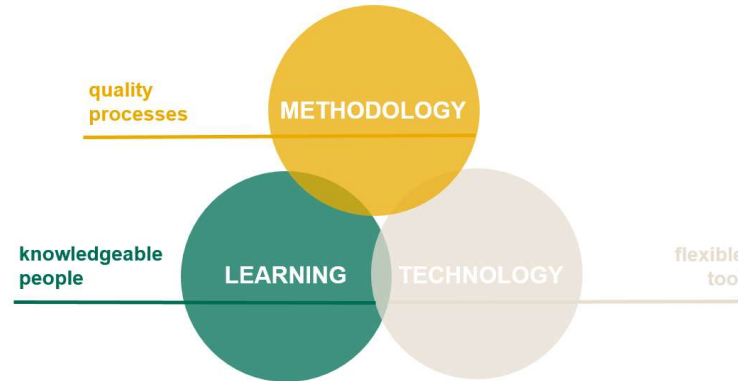
LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft

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IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Aequus Developments Ltd and Aequus Construction Ltd Page 23	To be confirmed once the Council have determined if Group Accounts will be required for 2018/19	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements	<ul style="list-style-type: none"> Management override of controls Valuation of property, plant and equipment Valuation of investment property Valuation of Pension Fund net liability 	Full scope UK statutory audit performed by component auditor The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor's audit documentation and meeting with appropriate members of management.
Bath Tourism Plus Ltd	No	Analytical procedures at group level	No significant risks identified.	Analytical procedures at group level
Adoption West	No	Analytical procedures at group level	No significant risks identified.	Analytical procedures at group level

Key changes within the group:

- The Council has a wholly owned subsidiary, Aequus Developments Limited (ADL), which was incorporated in March 2016. In 2016/17 and 2017/18 the company was not consolidated. Activity at ADL has increased significantly in 2018/19; the Council will need to consider whether Group Accounts will be produced in 2018/19.
- The Council has a share in a private company limited by guarantee set up by 6 local authorities (South Gloucestershire, Bath & North East Somerset, North Somerset, Bristol, Wiltshire and Gloucestershire Councils) to co-ordinate and facilitate adoptions across the region. The service will commence from 1 March 2019.

Audit scope

- Audit of the financial information of the component using component materiality**
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements**
- Review of component's financial information**
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements**
- Analytical procedures at group level**

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Income from Other Fees and Charges	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For Bath and North East Somerset Council, we have concluded that the greatest risk of material misstatement relates to 'Other Fees and Charges Income'. We have therefore identified the occurrence and accuracy of Other Fees and Charges income as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p> <p>We have rebutted this presumed risk for the other revenue streams of the group and Authority because:</p> <ul style="list-style-type: none"> Other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or opportunities to manipulate revenue recognition are very limited. 	<p>For 'Other Fees and Charges Income' we will:</p> <ul style="list-style-type: none"> evaluate the group's accounting policy for recognition of income from Other Fees and Charges for appropriateness; gain an understanding of the Authority's system for accounting for income from Other Fees and Charges and evaluate the design of the associated controls; agree, on a sample basis, amounts recognised as income from Other Fees and Charges in the financial statements to supporting documents. <p>For all other revenue streams, having considered the risk factors set out in ISA240, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including Bath and North East Somerset Council, mean that all forms of fraud are seen as unacceptable.
Management override of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> evaluate the design effectiveness of management controls over journals analyse the journals listing and determine the criteria for selecting high risk unusual journals test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of investment property (Annual revaluation)	<p>The group revalues its investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.</p> <p>We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of land and buildings (Rolling revaluation)	<p>The group revalues its land and buildings on a rolling five-yearly basis.. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the group's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund net liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures. • obtain assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for the creation of the subsidiary Aequus Developments Ltd	<p>In 2016, the Authority created a wholly owned subsidiary company Aequus Developments Ltd with the aim of delivering property development services to the Authority through a more focussed and commercial approach, enabling the Authority itself to focus on the delivery of services.</p> <p>In 2016/17 and 2017/18 the company was not consolidated due to the quantitative and qualitative aspects were not considered to be material by Bath and North East Somerset Council. Activity at ADL has increased significantly in 2018/19; the Council will need to consider whether Group Accounts will be produced in 2018/19.</p> <p>The consolidation of the subsidiary may give rise to a number of material accounting transactions in the financial statements for which the economic substance of the transactions needs to be considered.</p> <p>We therefore identified the accounting transactions associated with the consolidation of Aequus Developments Ltd as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the key agreements to gain an understanding of the agreements put in place on the establishment of the company; • discuss with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements; • critically assess the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance; • review the Group structure of the Council; • obtain an copy of the Group materiality document to be prepared by the Council; • review the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

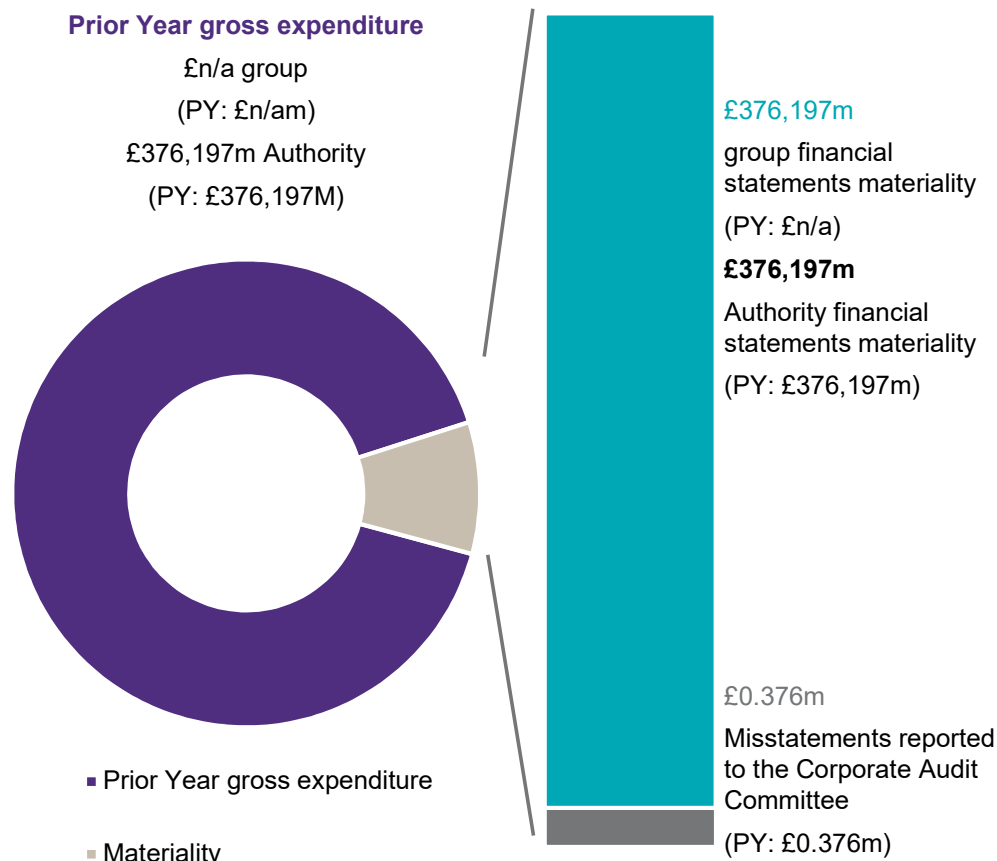
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £7.524m (PY £n/a) for the group and £7.524m (PY £7.524m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Corporate Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.376m (PY £0.376m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

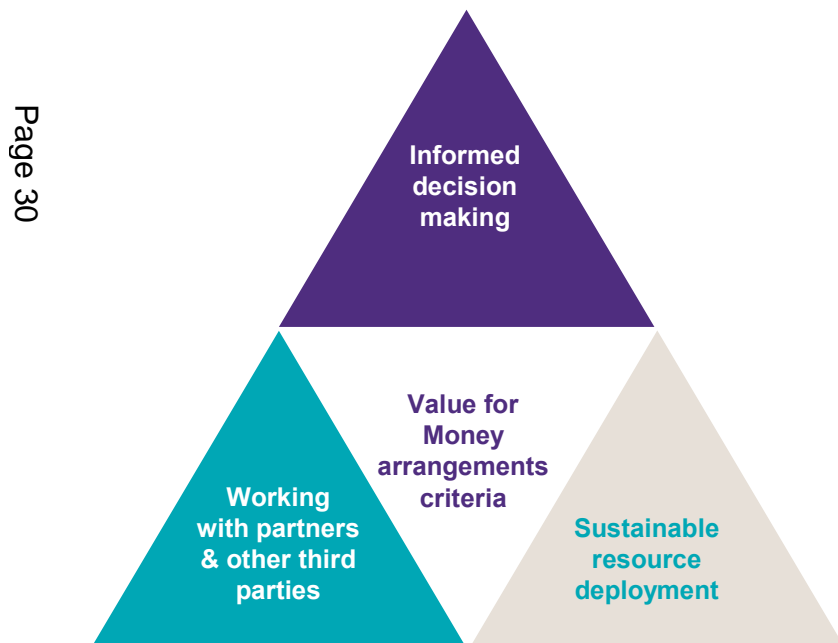
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Medium Term Financial Plan

The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. Bath and North East Somerset Council currently has a budget gap of £50.3m over the five years to 2023/24 which is significant.

Over the two years to 2020/21, the budget gap is £29.3m. So far, £9.8m of savings have been identified but a further £19.5m savings are required over the period. This includes a significant gap of £6.2m to find in 2019/20.

As at month 9, the 2018/19 outturn is forecast to be £4.1m over budget for the full year. In the short term the Council has one off reserves that can be used to mitigate these pressures but the longer term implications are challenging. The continued pressure from Children's Services has resulted in overspends annually and further enforces the need to identify alternative methods of achieving the Council's financial position for the future.

We will review the actions taken to identify savings and how these have been challenged and consider the plans to identify further savings.

We will review monitoring arrangements, including the robustness of the Council's Medium Term Financial Plan, the delivery of the 2018/19 budget, and the action taken when plans are not being delivered.



Aequus Developments Ltd

The Council has a wholly owned subsidiary, Aequus Developments Limited (ADL), which was incorporated in March 2016. In 2016/17 and 2017/18 the company was not consolidated. Activity at ADL has increased significantly in 2018/19.

We will review the Council's arrangements for the establishment of Aequus Ltd and the monitoring processes in place to ensure performance and quality standards are delivered, to demonstrate the Value for Money is being achieved by the Council.

We will review the Council's Governance arrangements to provide appropriate oversight, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.

Audit logistics, team & fees



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Pete Barber, Engagement Lead

Pete leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Audit fees

The planned audit fees are £95,351 (PY: £123,832) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.



Sophie Morgan-Bower, Audit Manager

Sophie plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.



Rob Patterson, Audit Incharge

Rob's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently. Rob supervises and co-ordinates the on-site audit team.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

Bath and North East Somerset Council achieved the earlier deadline of 31 July during 2017/18.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 15). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Teachers Pension	5,010	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5k in comparison to the total fee for the audit of £95k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit	22,735	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £23k in comparison to the total fee for the audit of £95k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO insights	5,000	Self-Interest (because this is a recurring fee)	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team. The subscription ended during the financial year 2018/19 and a break clause was invoked.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

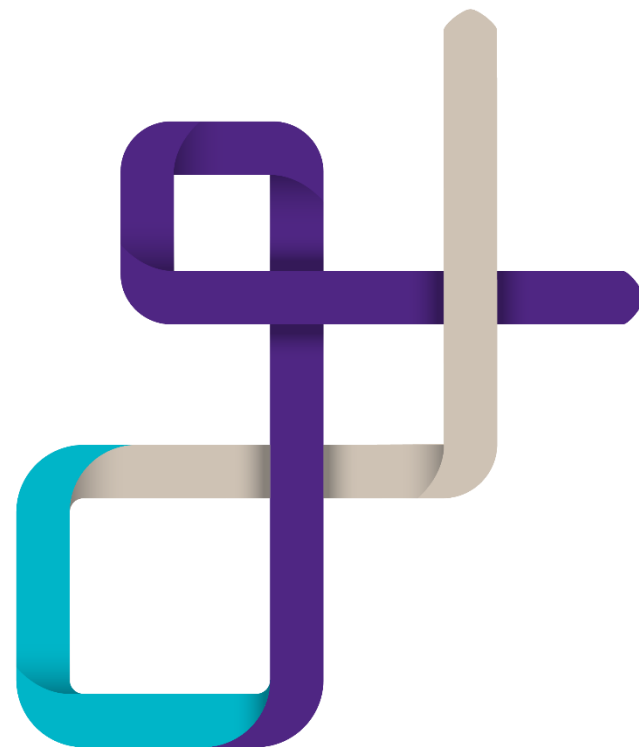
External Audit Plan

Year ending 31 March 2019

Avg Pension Fund

23 January 2019

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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 planning 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 the Pension Fund or all 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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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Avon Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Avon Pension Fund. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Audit Committee).

The audit of the financial statements does not relieve management or the Corporate Audit Committee of your responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- The revenue transactions include fraudulent transactions (this is rebutted, please see page 6)
- Valuation of Level 3 Investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined materiality at the planning stage of our audit to be £46.01m (PY £46.01m) for the Fund, which equates to 1% of your net assets for the 2017/2018 year.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.3m (PY £2.3m).

Audit logistics

Our interim visit will take place in January and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £22,180 (PY: £28,805) for the Fund, subject to management meeting our requirements set out on page 11.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

External Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated of Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its “interim solution” for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.

The Pensions Regulator (tPR)

tPRs [Corporate Plan](#) for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

New audit approach

New audit methodology

We will be using our new audit methodology and tool LEAP, for the 2018/19 audit. This takes advantage of advances in technology, using new cloud based software developed in partnership with Microsoft.

Internal Factors

Pooling

On 18 July 2017 the Brunel Pension Partnership Local Government Pension Scheme (LGPS) Funds formally created BPP Ltd, a £27.5 billion investment company. The company, a FCA regulated entity, implements the asset allocation strategies for the 10 member LGPS Funds. Under these new arrangements, the Avon Pension Fund retains responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The company structure has been in place and operational from April 2018. The transition to the Brunel portfolios began in 2018 and will take at least 2 years. In September 2018, the Fund had made its first commitments to the Secure Income and Infrastructure portfolios set up by Brunel. during 2018/19.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.
- We will follow up our previous agreed action plan and consider the progress the Fund has made.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.
- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will ensure that our resources and testing are best directed to address your risks in an effective way.
- Whilst we do not consider the transfer of assets to the pool as a significant risk we will tailor our approach to gain assurance in respect of the completeness and accuracy of the transactions.

Audit approach

Use of audit, data interrogation and analytics software

LEAP



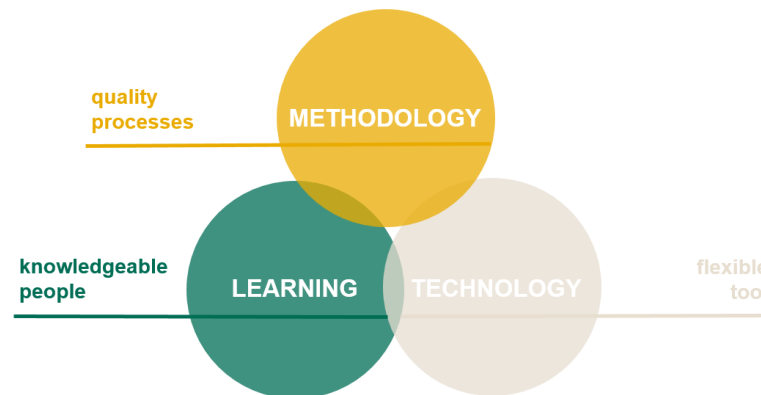
Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft

IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also use other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively



Appian

Appian

Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Revenue transactions include fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Bath and North East Somerset as the Administering Authority of Avon Pension Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Avon Pension Fund.</p>
Management override of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<div> <div>The valuation of Level 3 investments is incorrect</div> <div>Page 41</div> </div>	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£696m) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by Bath and North East Somerset Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

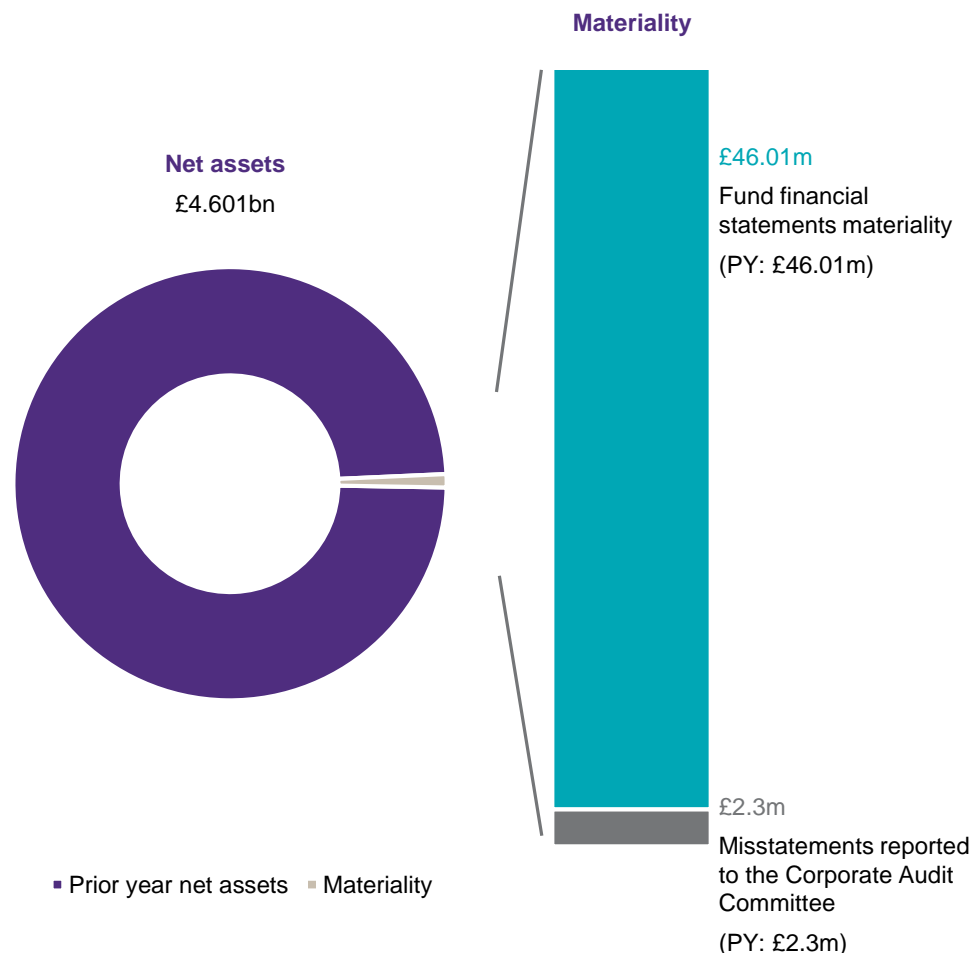
We have determined materiality at the planning stage of our audit to be £46.01m (PY £46.01m) for the Fund. We consider the proportion of the net assets of the Fund to be the appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to 1% of your net assets for the year ended 31 March 2018.

We will reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Corporate Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.3m (PY £2.3m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Audit Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees



Peter Barber, Engagement Lead

Peter's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Fund.



Michelle Burge, Audit Manager

Michelle's role will be to act as a key contact with the Chief Financial Officer and the Audit Committee. She will be responsible for the overall management of the audit.



Hannah Wood, In Charge Auditor

Hannah's role will be to act as the day-to-day contact for the Fund finance staff. She will take responsibility for ensuring there is effective communication and understanding of audit requirements.

Audit fees

The planned audit fees are £22,180 (PY: £28,805) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. There is no non-Code (as defined by PSAA) work planned. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts in England was brought forward to 31 July. Wales and Scotland currently have different deadlines but there is convergence towards earlier close. This is a significant challenge for Pension Funds and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors there is a shorter period to complete our work and an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 10). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. No other services were identified.



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Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	7th February 2019	EXECUTIVE FORWARD PLAN REFERENCE:
		E
TITLE:	Treasury Management Strategy Statement and Treasury Investment Strategy 2019/20	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 - Treasury Management Strategy 2019/20		
Appendix 2 – Treasury Investment Strategy 2019/20		
Appendix 3 - Authorised Lending List		
Appendix 4 - Economic and Interest Rate Forecast		

1 THE ISSUE

- 1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.2 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.
- 1.3 Investments held for service purposes or for commercial profit are considered in the Capital and Investment Strategy within the Budget Report which is also included on this meeting's agenda.

2 RECOMMENDATIONS

The Corporate Audit Committee is asked to note –

- The actions proposed within the Treasury Management Strategy Statement (Appendix 1) to February Council and the Investment Strategy as detailed in Appendix 2 to February Council.
- The Treasury Management Indicators detailed in Appendix 1

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

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

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 This report is a statutory requirement.

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 2019/20 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, Arlingclose.

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 (which includes investments expected to produce revenue savings and generate new income) must be limited to a level whereby the net impact on the revenue budget from: -

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

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

5.5 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code). This 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, and the report is on the agenda for the 7th February 2019 meeting.

2019/20 Treasury Management & Investment Strategy

5.6 The Strategy Statement for 2018/19 set Treasury Indicators for 2018/19 – 2020/21, which included a total borrowing requirement at the end of 2018/19 of £405 million. At the end of December 2018, external borrowing was at £206.7 million, which may increase before the end of the 2018/19 financial year should a review of the Council's cashflow and capital investment decisions highlight additional borrowing is required. The level of borrowing is in line with the policy of utilising internal cash to reduce net borrowing costs and investment counterparty risk.

5.7 The proposed Treasury Management Strategy is attached as Appendix 1 and includes the Treasury Management Indicators required by the Treasury Management Code.

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

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

- 5.10 Appendix 1 also details the Council's current portfolio position as at 31st December 2018, which shows after the netting off of the £53.2 million investments, the Council's net debt position was £153.5 million.
- 5.11 The 2019/20 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 previous years, which has protected the Council against losses of investment, for example in Icelandic banks.
- 5.12 The Counterparty listing in Appendix 3 includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in Appendix 2 as at 31st December 2018 are included in the listing in Appendix 3.
- 5.13 Interest rate forecasts from the Council's Treasury advisors are included in Appendix 4.
- 5.14 The Council has met the conditions to opt up to MiFID II professional status and intends for this to continue in 2019/20 in order to continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors.

6 RATIONALE

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

7 OTHER OPTIONS CONSIDERED

7.1 The Chief Financial Officer, having consulted the Cabinet Member for Finance and Efficiency, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are the table below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

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 2017 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 carries 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 persons	<i>Giles Oliver - 01225 477022 giles_oliver@bathnes.gov.uk</i> <i>Donna Parham 01225 477468 donna_parham@bathnes.gov.uk</i>
Background papers	<i>2018/19 Treasury Management & Investment Strategy.</i>
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

TREASURY MANAGEMENT STRATEGY – 2019/2020

Introduction

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

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

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

Treasury Borrowing Limits for 2019/20 to 2021/22

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 2019/20 – 2021/22

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 value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2019/20
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:

	2019/20	2020/21	2021/22
Upper limit on fixed interest rate exposures	£409m	£432m	£437m
Upper limit on variable interest rate exposures	£222m	£245m	£250m

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 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 long-term principal sum invested to final maturities beyond the period end will be :

	2019/20	2020/21	2021/22
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.

	2019/20	2020/21	2021/22
Operational boundary – borrowing	£409m	£432m	£437m
Operational boundary – other long-term liabilities	£2m	£2m	£2m
Operational boundary – TOTAL	£402m	£434m	£439m
Authorised limit – borrowing	£440m	£463m	£467m
Authorised limit – other long-term liabilities	£2m	£2m	£2m
Authorised limit – TOTAL	£442m	£465m	£469m

External Context & Prospects for Interest Rates (Arlingclose Ltd)

Economic background:

The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted

for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit outlook:

The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non ringfenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast:

Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity (at the time of writing this commentary in mid-December). As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

Arlingclose Interest Rate Forecasts

Arlingclose central interest rate forecast – December 2018

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield*
Q1 2019	0.75	0.90	1.15	2.00
Q2 2019	0.75	0.95	1.25	2.10
Q3 2019	1.00	1.10	1.35	2.20
Q4 2019	1.00	1.30	1.50	2.20
H1 2020	1.25	1.40	1.65	2.20
H2 2020	1.25	1.37	1.55	2.20
H1 2021	1.25	1.35	1.37	2.20
H2 2021	1.25	1.35	1.24	2.20

*

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

The Council has budgeted for investment interest rates will be made at an average rate of 1.20% for 2019/20 & beyond, reflecting the majority of planned investment will be short-term.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 4.

Local Context

Current Portfolio Position

The Council's treasury portfolio position at 31st December 2018 comprised:

	Principal	Ave. rate
	£m	%
External Borrowing		
Fixed rate funding – PWLB	176.7	3.11
Fixed rate funding – LA's	10.0	2.05
Variable rate funding – LOBOs *	20.0	4.50*
Other long term liabilities	Nil	N/A
TOTAL GROSS EXTERNAL DEBT	206.7	3.19%
Investments		
Short Term Investments	53.2	0.79%
Long Term Investments	0	
TOTAL INVESTMENTS**	53.2	0.79%
NET DEBT	153.5	

* These market loans are 'Lenders Options, Borrow Options' or LOBO's. They were taken out on October 2004 and April 2005 and were fixed at a relatively low rate of interest for an initial period and are now payable at 4.5%. The loans are classed as variable, as the lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower also has the option to repay the loan without penalty.

** Total Investments includes Schools balances where schools have not opted for an external bank account.

Borrowing Strategy

As at 31st December 2018, the Council held £206.7 million of long-term loans, 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 2019 is expected to be £352 million, and is forecast to rise to £440 million by March 2020 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 2019/20 is:

	£m
Not borrowed in previous years	145
Forecast increase in CFR	88
Loans maturing in 2019/20	10
TOTAL	243

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 2019/20 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 2019/20, 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
- any other UK public sector body
- 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:

- Leasing
- 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.

Municipal 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 2019/20, 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

TREASURY INVESTMENT STRATEGY

Investment Policy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £24.3 and £61.5 million, and similar levels are expected to be maintained in the forthcoming year.

The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The 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.

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

Negative interest rates: If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

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

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.

As a result of the second Markets in Financial Instruments Directive (MiFID II),

local authorities will be treated as retail clients but can “opt up” to professional client status, providing that they meet certain criteria which includes having an investment balance of at least £10 million and the persons authorised to make investment decisions on behalf of the Council having at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies must assess that these persons have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Council has met the conditions to opt up to MiFID professional status and intends for this to continue in 2019/20 in order to continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors.

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 cash balance held internally is a working balance to cover pension payments at any point in time and it is estimated will be an average of £25 million, being around 0.54% of the overall assets of the Fund. The regulations require that this cash is accounted for separately and invested separately from the Council’s cash. Investments held 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.

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 Brunel Pension Partnership does not have any direct impact on the Council’s treasury management activities.

The West of England Combined Council

The West of England Combined Council was established in 2017. The Council has its own investment and borrowing powers, and is required to approve its own Treasury Strategy Statement.

The Council’s Treasury Management Team have undertaken a lead role for the Treasury Management Function for the combined authority, with recovery of cost through an agreed Service Level Agreement. The arrangement is planned to end for 2019/20

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 and Building Society 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 50 Years	£10m 20 Years	£5m 20 Years
AA+	£10m 5 Years	£15m 10 Years	£15m 25 Years	£5m 10 Years	£5m 10 Years
AA	£10m 4 Years	£15m 5 Years	£15m 15 Years	£5m 5 Years	£5m 10 Years
AA-	£10m 3 Years	£15m 4 Years	£10m 10 Years	£5m 4 Years	£5m 10 Years
A+	£10m 2 Years	£15m 3 Years	£10m 5 Years	£5m 3 Years	£5m 5 Years
A	£10m 13 Month	£10m 2 Years	£10m 5 Years	£5m 2 Years	£5m 5 Years
A-	£10m 6 Months	£10m 13 months	£10m 5 Years	£5m 13 Months	£5m 5 Years
BBB+	£5m 3 Months	£10m 6 Months	£10m 2 Years	£3m 6 months	£3m 2 Years
BBB	£5m Overnight	£5m 3 Months	N/A	N/A	N/A
None	£1m 6 Months	N/A	£10m 25 Years	£50,000 5 Year	£3m 5 Years
Money Markey Funds	£10m per Fund and an overall total of £40m invested in Money Market Funds				
Pooled Funds	£10m Per Fund*				

* Amount refers to the principal invested (excluding any market valuation changes)

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

Credit rating:

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

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- (with the current rating being A-).

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 generally a lower risk of

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

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 and register social landlords, formerly known as Housing Associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds

Shares or units 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 Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

The Council's 2019/20 savings and income generation proposals includes an item for generating additional investment income through taking a longer term investment approach to the £10 million core investment balance that it is required to maintain for MiFID (Markets in Financial Instruments Directive) purposes. The Council continues to consider investment in the CCLA Property Fund and other longer term pooled funds with a view to providing further diversification of its commercial property and investment portfolios and the potential for earning a higher investment yield whilst maintaining regards to security through investment in these higher yielding asset classes. Any future investment is already covered under the existing Investment strategy for

pooled funds and any final investment decision is delegated to the S151 Officer and will be subject to consultation with the Cabinet Member for Finance & Efficiency.

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.

Investment limits:

The Council revenue reserves are available to cover investment losses are forecast 2019. To limit risk from any a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment Category	Cash limit
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£15m per country rated AAA £10m per Country rated AA-
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£15m in total
Loans to unrated corporates	£1m in total
Money market funds	£40m in total

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally

reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the 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. Non-specified investments will 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- (except for UK Government and Local Authorities)	15
TOTAL	65

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 2019/20

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 Council 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 2019/20 authorised borrowing limit of £440million. The maximum periods between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

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Proposed Counterparty List - Unsecured Bank Investments 2019/20

			FITCH RATINGS			MOODY'S RATINGS			STANDARD & POOR'S RATINGS		
Counterparty	Duration	Council Limit (£m)	Short-term	Long-term	Viability	Short-term	Long-term	Baseline Credit Assess	Short-term	Long-term	Banking Group
UNITED KINGDOM: BANKS											
BANK OF SCOTLAND PLC	2 Years	10	F1	A+	a	P-1	Aa3	a3	A-1	A+	Lloyds Banking Group
LLOYDS BANK PLC	2 Years	10	F1	A+	a	P-1	Aa3	a3	A-1	A+	
BARCLAYS BANK PLC	13 Months	10	F1	A+	a	P-1	A2	baa3	A-1	A	Barclays Group
BARCLAYS BANK UK PLC	13 Months	10	F1	A+	a	P-1	A1	a3	A-1	A	
CLOSE BROTHERS LTD	13 Months	10	F1	A	a	P-1	Aa3	a2			
GOLDMAN SACHS INT'L BANK	2 Years	10	F1	A		P-1	A1	baa2	A-1	A+	
HANDELSBANKEN PLC	3 Years	10	F1+	AA					A-1+	AA-	
HSBC BANK PLC	3 Years	10	F1+	AA-	a+	P-1	Aa3	baa2	A-1+	AA-	HSBC Group
HSBC UK BANK PLC	3 Years	10	F1+	AA-	a				A-1+	AA-	
NATIONAL WESTMINSTER BANK	6 Months	10	F1	A+	a	P-1	A1	baa1	A-2	A-	
ROYAL BANK OF SCOTLAND PLC/T	6 Months	10	F1	A+	a	(P)P-1	A1	baa1	A-2	A-	RBS Group
ULSTER BANK LIMITED	6 Months	10	F1	A+		P-1	A1	baa1	A-2	A-	
SANTANDER UK PLC	13 Months	10	F1	A *	a	P-1	Aa3	a3	A-1	A	Santander Group
STANDARD CHARTERED BANK	13 Months	10	F1	A+	a	P-1	A1	baa1	A-1	A	
UK: BUILDING SOCIETIES											
COVENTRY BUILDING SOCIETY	13 Months	10	F1	A	a	P-1	A2	a3			
LEEDS BUILDING SOCIETY	6 Months	10	F1	A-	a-	P-2	A3	baa1			
NATIONWIDE BUILDING SOCIETY	2 Years	10	F1	A+	a	P-1	Aa3	a3	A-1	A	
COMMONWEALTH OF AUSTRALIA			F1+	AAA			Aaa		A-1+u	AAAu	
AUST AND NZ BANKING GROUP	3 Years	10	F1+	AA-	aa-	P-1	Aa3	a2	A-1+	AA-	
COMMONWEALTH BANK OF AUSTRAL	3 Years	10	F1+	AA-	aa-	P-1	Aa3	a2	A-1+	AA-	
NATIONAL AUSTRALIA BANK LTD	3 Years	10	F1+	AA-	aa-	P-1	Aa3	a2	A-1+	AA-	
NEW SOUTH WALES TREASURY COR	5 Years	10				P-1	Aaa		A-1+	AAA	
WESTPAC BANKING CORP	3 Years	10	F1+	AA-	aa-	P-1	Aa3	a2	A-1+	AA-	
GOVERNMENT OF CANADA			F1+	AAA			Aaa		A-1+	AAA	
BANK OF MONTREAL	2 Years	10	F1+	AA-	aa-	P-1	Aa2	a3	A-1	A+	
BANK OF NOVA SCOTIA	2 Years	10	F1+	AA-	aa-	P-1	Aa2	a3	A-1	A+	
CAN IMPERIAL BK OF COMMERCE	2 Years	10	F1+	AA-	aa-	P-1	Aa2	a3	A-1	A+	
EXPORT DEVELOPMENT CANADA	5 Years	10				P-1	Aaa		A-1+	AAA	
ROYAL BANK OF CANADA	3 Years	10	F1+	AA	aa	P-1	Aa2	a3	A-1+	AA-	
TORONTO-DOMINION BANK	3 Years	10	F1+	AA-	aa-	P-1	Aa1	a1	A-1+	AA-	
KINGDOM OF DENMARK			F1+	AAA		P-1	Aaa		A-1+	AAA	
KOMMUNEKREDIT	5 Years	10				P-1	Aaa		A-1+	AA+	
REPUBLIC OF FINLAND			F1+	AA+		P-1	Aa1		A-1+	AA+	
MUNICIPALITY FINANCE PLC	5 Years	10				P-1	Aa1	a1	A-1+	AA+	
NORDEA BANK ABP	3 Years	10	F1+	AA-	aa-	P-1	Aa3	a3	A-1+	AA-	
OP CORPORATE BANK PLC	3 Years	10				P-1	Aa3	baa2	A-1+	AA-	
FEDERAL REPUBLIC OF GERMANY			F1+	AAA			Aaa		A-1+u	AAAu	
BAYERISCHE LANDESBANK	6 Months	10	F1	A-	bbb+	P-1	Aa3	baa3	NR	NR	
DZ BANK AG DEUTSCHE ZENTRAL-	3 Years	10	F1+	AA-		P-1	Aa1	baa2	A-1+	AA-	
FMS WERTMANAGEMENT	5 Years	10				P-1	Aaa		A-1+	AAA	
KREDITANSTALT FUER WIEFERAUF	5 Years	10	F1+	AAA		P-1			A-1+	AAA	
LANDESBANK HESSEN-THURINGEN	13 Months	10	F1+	AA-		P-1	Aa3	baa2	A-1	A	
LANDESKRED BADEN-WUERTT FOER	5 Years	10	F1+	AAA		P-1	Aaa		A-1+	AAA	
LANDESBANK BADEN-WUERTTEMBER	6 Months	10	F1	A-	bbb+	P-1	Aa3	baa2	NR	NR	
LANDWIRTSCHAFTLICHE RENTENBA	5 Years	10	F1+	AAA		P-1	Aaa		A-1+	AAA	
LAND SACHSEN-ANHALT	5 Years	10	F1+	AAA		P-1	Aa1		A-1+	AA+	
KINGDOM OF THE NETHERLANDS			F1+	AAA		P-1	Aaa		A-1+u	AAAu	
ING BANK NV	5 Years	10	F1+	AA+		P-1	Aaa	a1	A-1+	AAA	
COOPERATIEVE RABOBANK UA	2 Years	10	F1+	AA-	a+	P-1	Aa3	a3	A-1	A+	
NEDERLANDSE WATERSCHAPSBANK	5 Years	10				P-1		a1	A-1+	AAA	
KINGDOM OF NORWAY			F1+	AAA			Aaa		A-1+	AAA	
KOMMUNALBANKEN AS	5 Years	10				P-1	Aaa	a1	A-1+	AAA	
REPUBLIC OF SINGAPORE			F1+	AAA			Aaa		A-1+u	AAAu	
DBS BANK LTD	3 Years	10	F1+	AA-	aa-	P-1	Aa1	a1	A-1+	AA-	
OVERSEA-CHINESE BANKING CORP	3 Years	10	F1+	AA-	aa-	P-1	Aa1	a1	A-1+	AA-	
TEMASEK FINANCIAL I LTD	5 Years	10					Aaa			AAA	
UNITED OVERSEAS BANK LTD	3 Years	10	F1+	AA-	aa-	P-1	Aa1	a1	A-1+	AA-	
KINGDOM OF SWEDEN			F1+	AAA		P-1	Aaa		A-1+u	AAAu	
SVENSK EXPORTKREDIT AB	5 Years	10				P-1	Aa1	a1	A-1+	AA+	
SUPRANATIONAL											
COUNCIL OF EUROPE DEVELOPMNT	5 Years	10	F1+	AA+		P-1	Aa1		A-1+	AA+	
EUROPEAN BANK FOR RECONSTRUC	5 Years	10	F1+	AAA		P-1	Aaa		A-1+	AAA	
EUROPEAN COAL & STEEL COMMUN	5 Years	10					Aaa			AAA	
EUROPEAN INVESTMENT BANK	5 Years	10	F1+	AAA		P-1	Aaa		A-1+	AAA	
INTER-AMERICAN DEV BANK	5 Years	10	F1+	AAA		(P)P-1	Aaa		A-1+	AAA	
INTERNATIONAL BANK FOR RECON	5 Years	10	F1+	AAA		P-1	Aaa		A-1+	AAA	World Bank Group
INTERNATIONAL FINANCE CORP	5 Years	10				(P)P-1	(P)Aaa		A-1+	AAA	
NORDIC INVESTMENT BANK	5 Years	10				P-1	Aaa		A-1+	AAA	

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Appendix 4

Arlingclose Economic & Interest Rate Forecast

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitional period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.13
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-0.85
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35	1.27
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.76
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35	1.40
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.77
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.33
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.66
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.71
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.18
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.99
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	7th February 2019	AGENDA ITEM NUMBER
TITLE:	Draft Risk Management Strategy	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Draft Risk Management Strategy</p> <p>Appendix 2 – Draft Risk Management Strategy Toolkit</p>		

1 THE ISSUE

- 1.1 The report and appendices outline a refreshed approach to the risk management framework to ensure good governance is applied across all Council Services.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee endorses the Draft Risk Management Strategy subject to any comments made at the meeting (Appendix 1).

3 FINANCIAL IMPLICATIONS

- 3.1 There are no new financial implications from this report.

4 THE REPORT

- 4.1 Whilst the Council already has a long-standing process this was devised prior to the unprecedented financial challenge over recent years. Coupled with a rapidly changing risk environment around increasing demand, significant demographic changes, a fast paced digital expansion of services and rising customer expectations an organisations' approach to risk management needs to be agile as well as supportive to decision-making.

- 4.2 The proposed strategy to manage risk therefore recognises that both taking and accepting more risk as a result of these challenges is part of modern service delivery. However in accepting more risk we must do this in both a transparent and informed way to achieve the best results for citizens and customers.
- 4.3 Active risk management is an integral component of our local code of corporate governance which is designed to help us achieve our aspirations, priorities and outcomes to deliver the Council's Vision. This strategy therefore expects that we focus on taking the right actions to address risks and opportunities both in a transparent way and based on evidence.
- 4.4 We therefore want to promote an approach that focusses on the effective identification and management of risks to ensure the council is focussed on minimising adverse impacts and maximising benefits within the delivery of its objectives throughout all of its services.
- 4.5 The Strategy (& toolkit) is also designed to support Officers and Members in delivering on the Council's plans and operational objectives.
- 4.6 Our detailed approach to risk management is further explained and outlined in our Risk Management Toolkit which will be finalised following endorsement of the Strategy. An example of how the toolkit might look is attached at Appendix 2 where we have developed a simple one page 'card' approach for easy use via the intranet.
- 4.7 The strategy document attached also outlines our risk management objectives, how we will achieve them and embed good practices along with key milestones and expectations.

5 RISK MANAGEMENT

- 5.1 A proportionate risk assessment has been carried out in relation to the Council's 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 organisation's senior management.

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

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Risk Management Strategy 2019 - 2024

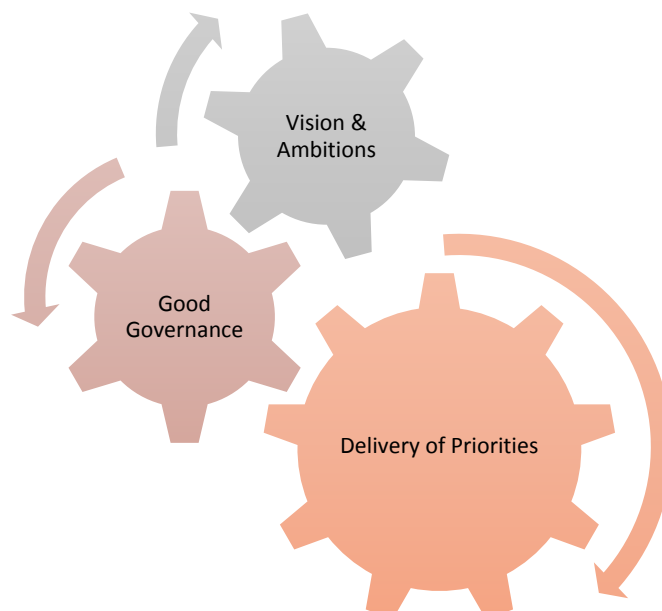
1. Introduction & Context

Local Government has faced an unprecedented financial challenge over the last ten years along with a rapidly changing risk environment around increasing demand, significant demographic changes, a fast paced digital expansion of services and rising customer expectations.

Our strategy to manage risk recognises that both taking and accepting more risk as a result of these challenges is part of modern service delivery. However in accepting more risk we will do this in both a transparent and informed way to achieve the best results for citizens and customers.

Therefore we want to promote an approach that focusses on the effective identification and management of risks to ensure the council is focussed on minimising adverse impacts and maximising benefits within the delivery of its objectives throughout all of its services.

Active risk management is an integral component of our local code of corporate governance which is designed to help us achieve our aspirations, priorities and outcomes to deliver the Council's Vision. This strategy therefore expects that we focus on taking the right actions to address risks and opportunities both in a transparent way and based on evidence.



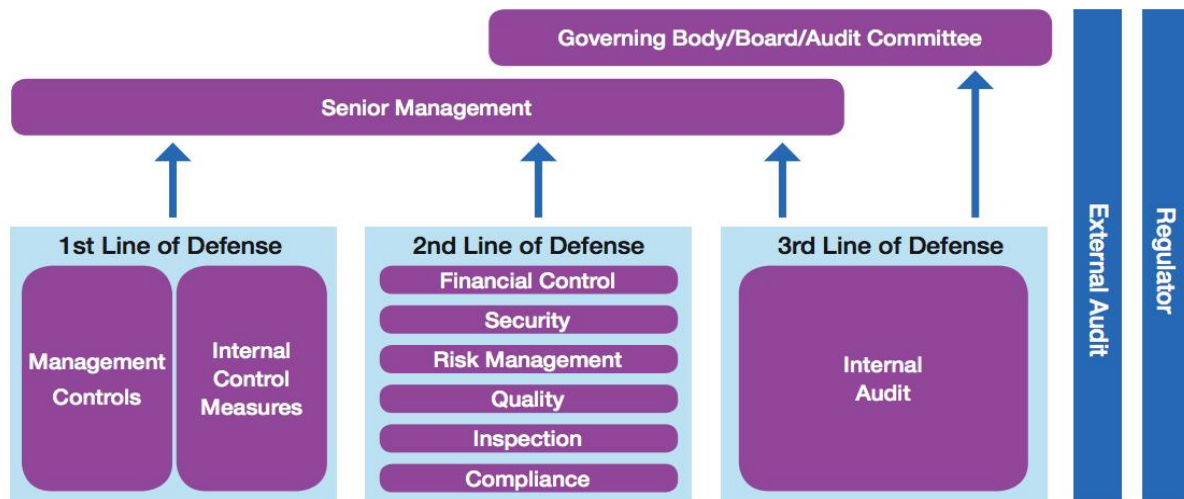
This Strategy is therefore designed to support Officers and Members in delivering on the Council's plans and operational objectives.

Our detailed approach to risk management is further explained and outlined in our Risk Management Toolkit whilst the rest of this statement outlines our high level objectives and how they will be achieved.

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1.1 Risk Management Objectives:

Risk Management forms the second line in the ‘**Three Lines of Defence Model**’ protecting our organisation. Our objectives are based on ensuring we do this in a sensible and proportionate way.



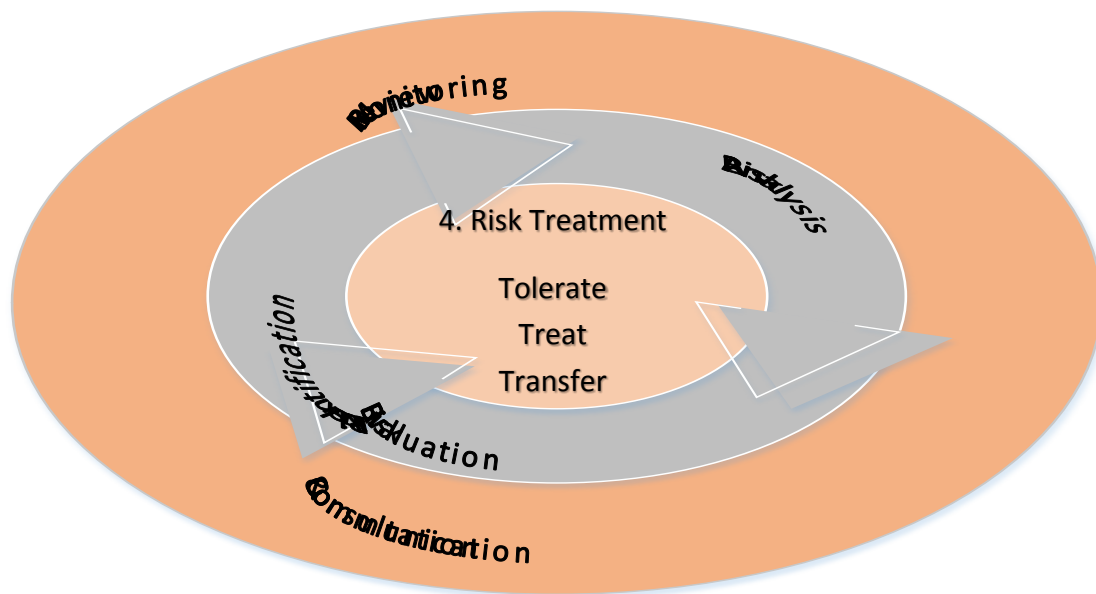
Objectives –

- **Adopt a strategic approach to risk management** to make informed decisions by ensuring mitigating actions are linked to the Council’s overall vision and objectives;
- **Allow Cabinet and Senior Management to set the ‘tone from the top’** on the level of risk we are prepared to accept on our service delivery activities and priorities. We will deliver on this by ensuring our mitigating actions are both proportionate and affordable, recognising we work in a dynamic environment where risk factors may change on a regular basis;
- **Acknowledgement of risks, mitigating actions and the residual risk, will be considered at an early stage of our financial and business planning processes.** The organisation recognises that as a result of ongoing austerity identifying cumulative risk impacts over prolonged periods is as equally important as individual short/medium term risks in order to plan and prioritise resources appropriately;
- **Adopt a layered but integrated approach to risk management** recognising that whilst risks may materialise in a different setting whether at a service, project or corporate level they can equally be so significant that it takes a council wide integrated approach to their management;
- **Acknowledge that** even with good risk management and our best endeavours, our intended **actions may not be sufficient** to deliver a successful outcome and **things can go wrong**. Where this happens, we will listen to feedback and use the lessons learnt to try to prevent it from happening again; **Develop leadership capacity and skills** in identifying, understanding and managing the risks facing the Council. This is an iterative process linked to good management and strong corporate governance;
- **Integrate risk management seamlessly** into how we run our Services by using our management framework **to link Finance, Performance and Risk conversations**. This should enable the right processes to be adopted and the right actions to be identified and implemented;

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1.2 Our Risk Management Objectives will be achieved by:

- Maintaining a robust and consistent risk management approach that will identify and effectively manage all forms of risk whether strategic, operational or project based
- Focus on those key risks that, because of their likelihood and impact, make them priorities;
- Communicating risk information effectively through a clear and integrated reporting framework;
- Establishing clear roles, responsibilities and reporting lines for risk management;
- Making it clear that all officers and members should take ownership for risk management;
- Incorporating risk management into all levels of business and service planning;
- Independently monitoring the arrangements in place for risk management on a regular basis;
- Providing a risk management toolkit and detailed guidance for decision making to support Officers along with targeted opportunities for ongoing learning and training.



Clearly the aim of our Strategy, objectives and risk management process is to **Actively Manage** risks down the risk matrix in terms of their potential impact on the organisation as outlined.

		LIKELIHOOD				
		Rare	Unlikely	Possible	Likely	Almost Certain
IMPACT	Catastrophic					
	Major					
	Moderate					
	Minor					
	Negligible					

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2. Embedding Risk Management

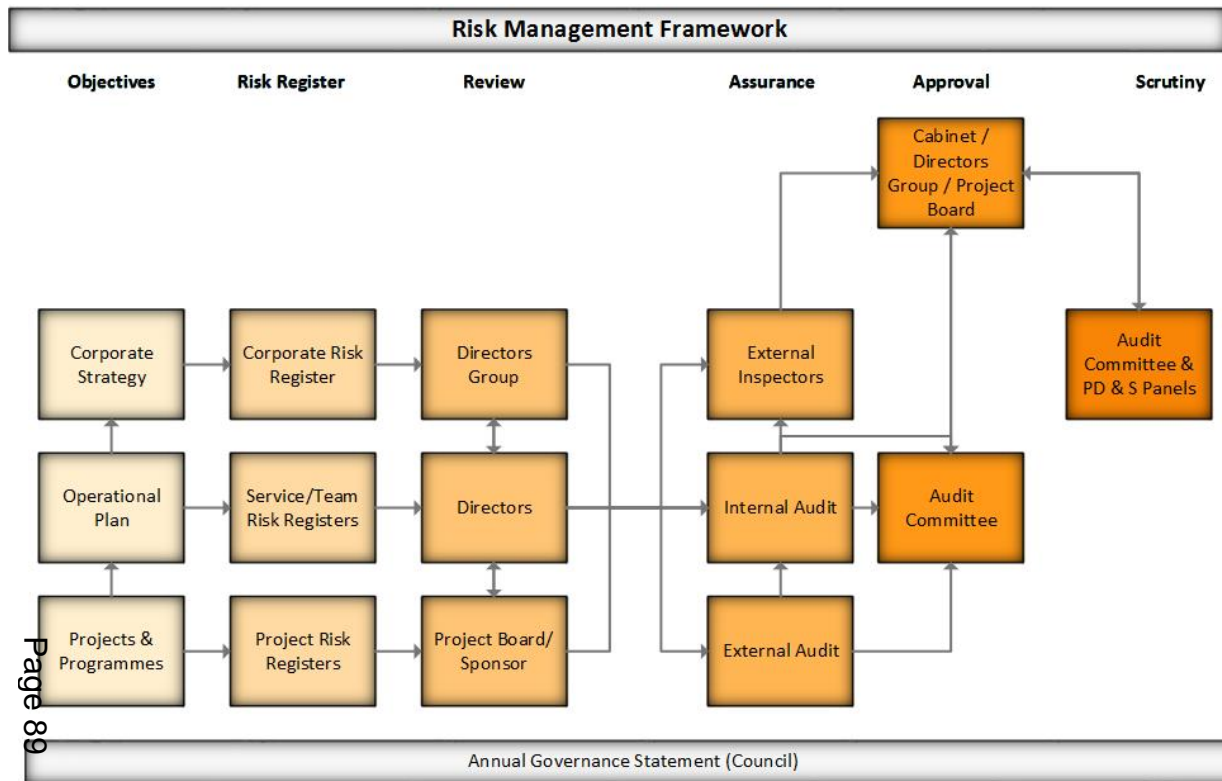
Risk Management is therefore an important part of the business and service planning process. This will enable strategic, operational and cross cutting risks/opportunities, as well as the accumulation of risks/opportunities from a number of areas to be properly considered. The Council is committed to continue to embed the process and raise awareness of the importance of good risk management.

We will do this through the use of existing management processes so that they are both integrated and proportionate, delivery on the objectives outlined in this document and ensure that the toolkit is refined on an ongoing basis to reflect the dynamic environment we all deliver services within.

3. Key Milestones

Milestone	Reporting Target Date(s)
Chief Executive, Directors & Heads of Service to ensure those risks considered to be highly significant are recorded in the Corporate risk register <ul style="list-style-type: none">• Agree risks recorded;• Confirm documented actions are reasonable and being implemented.	Quarterly
Individual Directorate, Service and Project leads to: <ul style="list-style-type: none">• Clearly document risks and identify existing controls and the degree to which they are applied. Evidence of the application of controls to be maintained and cross referenced to the action plans.• Evaluate existing controls for the degree of mitigation the control provides and whether further control is desirable.	Risk Based as set out in Toolkit – Monthly to Quarterly
Directors & Heads of Service to ensure that risk/opportunity identification is intrinsically linked to the development and maintenance of the Council's Operational & Corporate Plan.	During annual planning process
Directors & Heads of Service to ensure performance on managing risks is monitored regularly through management team meetings, 121's and PDR processes.	Ongoing
Directors & Heads of Service to give assurance to the Chief Executive regarding the management of risks within their area of service delivery. Internal Audit will consider these through the annual governance review and report significant issues through the annual governance statement.	Annually
Achievement of stated risk management objectives and the overall framework will be reviewed by Internal Audit and monitored through the Audit Committee who oversee the overall framework.	Annually

Risk Management Toolkit - Overview

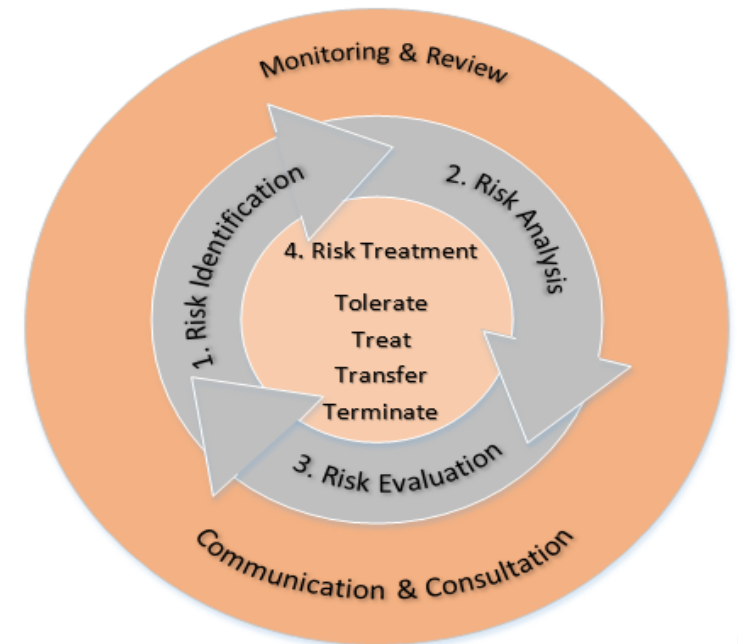


The Risk Management Framework sets out the approach for implementing the Risk Management Strategy and integrating risk management into the culture and working practices of the organisation and its partners.

To work effectively the risk management framework requires: -

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

Risk Management Process



The risk management process is a constant process of identification, analysis & evaluation. On a regular basis (monthly / quarterly) teams should consider and review what might impact service delivery. Annually teams should review business plans, considering new initiatives / priorities and consider related risks.

Risk Registers

To assist the risk management process and to document the risk management cycle - risk registers are used / maintained. An important role of the register is to document the identification, assessment (analysis / evaluation), risk treatment and monitoring /view process. Two risk register templates using an Excel Spreadsheet format have been adopted.

- The first template is recommended for use by Services / Project Teams. This template uses three separate 'Worksheets' and enables more detailed actions to be recorded for monitoring purposes.
 - The first worksheet is used to document and assess the risks,
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- Environmental Risks
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- Financial Risks
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Risk Analysis & Evaluation

The measurement of risk is calculated by assessing:

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Each defined risk will be scored by assessing the 'Impact' on a scale of one to five and multiplying this figure by the score for 'likelihood' (also gauged on a scale of one to five). This 5 x 5 scoring matrix has been adopted by the majority of public sector bodies and is consistent with the national model adopted within the Emergency Services. The product of this calculation of impact and likelihood is a "Risk Score", which can range from a minimum of 1 to a maximum of 25.

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		Rare	Unlikely	Possible	Likely	Almost Certain	
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	4	High	4	8	12	16	20
	3	Medium	3	6	9	12	15
	2	Low	2	4	6	8	10
	1	Negligible	1	2	3	4	5

Risk Management

The aim of the risk management process is to **Actively Manage** risks down the risk matrix in terms of their potential impact on the organisation from "Red to Amber" & "Amber to Green". When risks have been initially assessed and ranked within their relevant zones, there are four strategy options that are available. These options are often referred to as the 4 T's:

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Risk Monitoring & Review

Monitoring & review of risks and related actions plans will be carried out using the established forums (Performance Development Review meetings, 1:1 Performance Meetings, Team Meetings, and Management Meetings). It will be for Directors and Managers to agree the best way to communicate and consult on the maintenance of the risk management process. The Council's Internal Audit function will review risk management and the maintenance of internal control frameworks through their work.

Assessment of Impact

		Service/Operational	Assets	Legal Obligations	Project	Duty of Care – Clients & Staff
1	Negligible	Minimal disruption not impacting on an important service which can be resolved in less than a day	Up to 1% of budget	Litigation, claims or fines, Services up to £10k, Corporate £25k	Minimal impact to project / slight delay less than 1 week	Minimal or no impact on the Services Safeguarding or Duty of Care requirements.
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4	High	Complete loss of an important service area Service Disruption 3-5 Days	16% to 25% of budget	Litigation, claims or fines, Services up to £125k, Corporate £250k	Significant impact on project or most or most of expected benefits fail / major delay 2 – 3 months	Significant impact on meeting Safeguarding or Duty of Care responsibilities.
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What is a Risk?

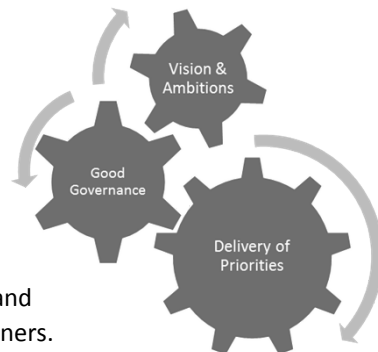
A Risk is an event or series of events which will adversely affect the ability to meet objectives – in part or in full. A risk can also be the failure to take advantage of opportunities to optimise the achievement of objectives.

Effective Risk Management forms a key aspect of assurance and governance for an organisation. Risk Management is widely recognised as one of the '2nd Lines of Defence' alongside; Financial Control; Security; Quality/Performance Management; Inspection; & Compliance. Organisations which can demonstrate and operate under a structured and active risk management approach are far more likely to be able to focus upon their key priorities and outcomes and, in doing so, take informed and robust decisions.

An effective risk management strategy and toolkit will therefore help to successfully achieve the four Council priorities of:

- 1) Strong economy and growth
- 2) A focus on prevention
- 3) Customers and communities
- 4) Efficient business

Risk management is an important component of delivering 'Good Governance'.



The toolkit aims to improve and maintain the integration of risk management into the culture and working practices of the organisation and its partners. It sits alongside the Risk Management Strategy which sets out the Council's risk management objectives and how these will be achieved and the milestones to be met when embedding risk management. The strategy is subject to an annual review to ensure that it remains up to date and continues to reflect the Councils approach to risk management.

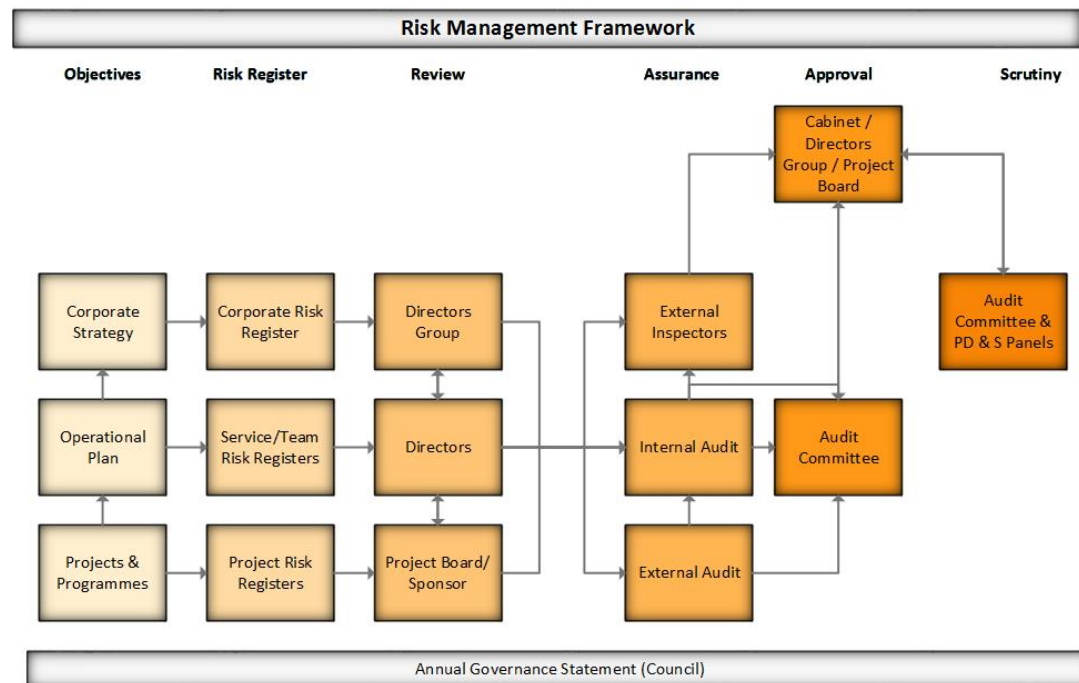
The objective of the toolkit is to explain the approach to risk management and outlines the risk management framework by which the organisation can view, manage and respond to risk, both threats and opportunities, in a robust, systematic and documented way.

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

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

To work effectively the risk management framework requires: -

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



Roles & Responsibilities

Cabinet & Elected Members

- Oversee the effective management of risk throughout the Council and its partnerships, and gain an understanding of its benefits, ensuring officers develop and implement an all-encompassing approach to risk management.

Corporate Audit Committee

- Provide independent assurance of the risk management framework and associated control environment, independent scrutiny of the Council and partners financial and non-financial performance, and oversee the financial reporting process.

Directorate Management Teams

- Gain an understanding and promote the risk management process and its benefits, oversee the implementation of the risk management strategy and agree any inputs and resources required supporting the work corporately.

Directors

- Ensure that the risk management process is promoted, managed and implemented effectively in their service areas within the organisation. Liaising with external agencies to identify and manage risk. Disseminating relevant information to service managers and officers.

Service Managers

- Raise awareness, manage and implement the risk management process effectively in their service areas, recommending any necessary training for employees on risk management. Incorporating risk ownership through the appraisal scheme with employees and share relevant information with colleagues in other service areas.

Officers

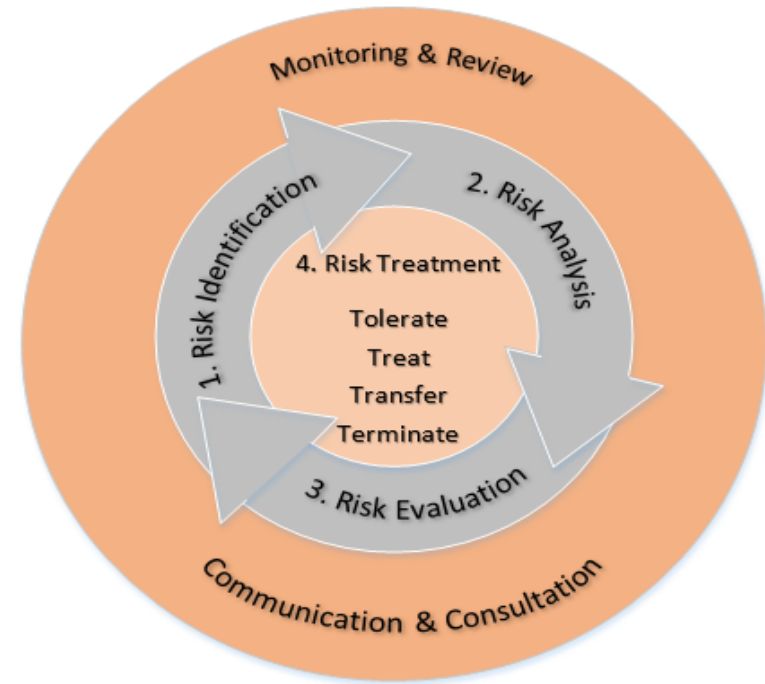
- Manage risk effectively in their jobs, liaising with their line manager to assess areas of risk in their job. Identify new or changing risks in their job and feed these back to their line manager.

Internal Audit

- Challenge the risk management process, including the identification and evaluation of risk and provide assurance to offices and members on the effectiveness of controls.

Risk Management Process

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



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

Risk Management Toolkit – Risk Registers

To assist the risk management process and to document the risk management cycle - risk registers are used / maintained. An important role of the register is to document the identification, assessment (analysis / evaluation), risk treatment and monitoring /view process. **Two risk register templates using an Excel Spreadsheet format have been adopted. It is a requirement that those services or functions formally identified as Council 'critical' services for Business Continuity purposes adopt the more detailed risk register template.**

- **The first template is recommended for use by Services / Project Teams.** This template uses three separate 'Worksheets' and enables more detailed actions to be recorded for monitoring purposes.
 1. The first worksheet is used to document and assess the risks,
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Below is an example of a completed line of a risk register, further explanations on how to complete each section can be found on page 2 of this document. The risk is recorded with a **Cause, Event & Implication**.

Nr	Description <div>Sort in Nr. Order</div>	Sort in Risk Rating Order	Date Entered on Register	Likelihood					Impact					This Period	Periods Ago			Current Status of Actions	Commentary on Current Status of Action Plans
				1	2	3	4	5	1	2	3	4	5		1	2	3		
				L	M	H	L	M	H	L	M	H	1		2	3			
R01	Due to an event / incident, e.g. significant snowfall, staff cannot get to their normal place of work potentially resulting in an inability to provide services to residents / clients / visitors.		01-Jan-19			3						4		12				On Target	As Business Critical Service - Discussions with the councils BC lead and meeting booked in to develop service plans.

The risk is then also copied to the action plan, to detail the status of each of the risks.

Unique ref no	Nr	Risk Description (Copy from 'Risk Register' Worksheet)	Action	Management Action	Action Owner	Implement By?	Implementation Status
R01.1	R01	Due to an event / incident, e.g. significant snowfall, staff cannot get to their normal place of work potentially resulting in an inability to provide services to residents / clients / visitors.	01	Informal or formal Service / Team Business Continuity Plan (formal BCP for specified critical services) to include mitigations for such an event / incident	J Bloggs	01-Apr-19	On Target
			02				

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Number	SERVICE / TEAM RISK DESCRIPTION (Description of 'event' & 'implication')	RISK OWNER	Likelihood					Impact					CURRENT RISK STATUS	PERIODS AGO			COMMENTARY ON ACTION PLAN (e.g. actions implemented /outstanding; implementation of actions to timescales)	
			1	2	3	4	5	1	2	3	4	5		1	2	3		
			Score					Score						1	2	3		
1	Due to an event / incident, e.g. significant snowfall, staff cannot get to their normal place of work potentially resulting in an inability to provide services to residents / clients / visitors.	J Bloggs			3							4		High				Informal or formal Service / Team Business Continuity Plan (formal BCP for specified critical services) to include mitigations for such an event / incident

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Risk Management Toolkit - Decision-Making Process

Why is Risk Management Important in Decision Making?

Corporate governance requires that risk management be integral to policy, planning and operational management. Applying risk management processes will help strategic decision makers make informed decisions about of policy decisions and service delivery options.

Decision makers need to be satisfied that the risks and opportunities related to proposals are fully considered. It is important that all those involved in the decision-making process have consciously analysed the proposal.

In addition to the decision maker obtaining a level of assurance that proposals requiring a decision has been subject to a robust risk assessment, it is an important principle of good governance that the decision making process can be subjected to effective scrutiny (Accountability). Decision makers can be held accountable for decisions internally by for example: - Full Council, Statutory Officers, Overview & Scrutiny Panels and externally by Government Inspections, the Local Government Ombudsman and members of the public & press (via Freedom of Information requests). They will want to see that the decision and the information used to make the decision are documented and accessible, i.e. the decision is 'informed' and 'transparent'.

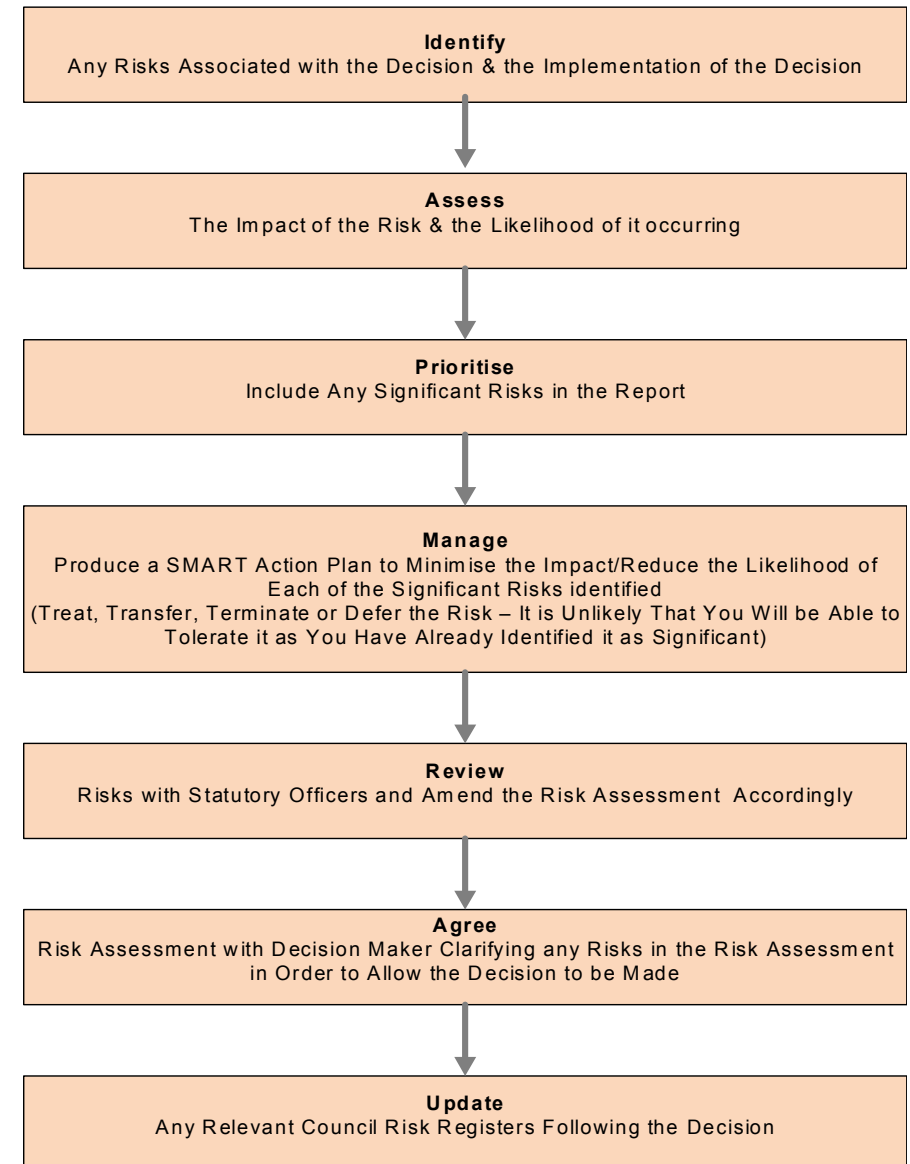
How is Risk Management Incorporated into the Council's Decision-Making Process?

The principles of risk management relating to decision making are the same as for any other risk management process. The diagram below outlines the process.

Cabinet and Committee report templates include a section 'Risk Management'. The section requires the report author to record 'significant' risks identified after carrying out a risk assessment. The risk assessment must record the risks related to taking the proposed actions / recommendation(s), i.e. the risks of implementation, and the risks of not taking the recommended action.

Any opportunities flowing from the proposal will be recorded in the 'Report' section of the report template.

How do you Assess Risks Related to a Decision?



What is the purpose of the risk assessment?

The risk assessment:

- Demonstrate that all significant risks related to the decision have been considered.
- Provides evidence that the decision maker has been provided with sufficient information about risks in terms of probability and impact
- Explain how the risks will be managed.

What will the risk assessment record?

The risk assessment should record:

- Risks that may arise if the decision is **not** taken.
- Risks that may arise if the decision **is** taken.
- Actions that will be taken to manage each risk documented if the decision is taken.

Who needs to be involved in compiling the risk assessment?

- Report Author
- Head of Paid Service (Chief Executive)
- S151 Officer (Chief Financial Officer)
- Monitoring Officer (Head of Legal & Democratic Services)
- Cabinet Member (including Leader)
- Director

Who needs to be involved in compiling the risk assessment?

The report author will take the lead in compiling the risk assessment using a template.

The report author in consultation with the appropriate Director(s) should review the report and the risk assessment.

The report and risk assessment will be made available to the Statutory Officers: -

- Head of Paid Service
- The Chief Finance Officer/ Section 151 Officer
- The Monitoring Officer

Statutory Officers Responsibilities

Statutory Officers or their nominated deputies will amend the risk assessment and identify risks that should be considered 'significant' and be recorded in the 'Risk Management' section of the report.

Cabinet Member Responsibilities

The Cabinet Member responsible for the decision should review the risk assessment and ask the following questions:

- Are there other risks related to the decision which have not been identified and assessed?
- Do they agree with the assessment of the risks that have been documented?
- Do they agree that the recorded actions to manage the documented risks are adequate?

Does every report require a Risk Assessment?

It is the responsibility of the report author to ensure that the risk assessment is sufficient for its purpose.

Do all risks in relation to the proposal have to be recorded?

The risk assessment should be proportionate to the decision being made. The report author and others involved in the risk assessment process should consider the impact of the risk when deciding whether it should be recorded or not. If the impact is negligible or low then it is reasonable that the risk is not recorded.

Will the Risk Assessment be available to the public?

The risk assessments will be held centrally and will not be automatically accessible to the public. However, risk assessments will be subject to the normal rules of disclosure under the Freedom of Information Act 2000 and other relevant legislation.

Service / Business Planning & Budget Setting

One of the keys to successfully embedding risk management is ensuring that it is explicitly linked to business planning. In a properly embedded process, remedial action should take place to mitigate those risks which managers believe are insufficiently controlled, i.e. where the residual risk exceeds the target risk.

Effective management of risks can only be achieved through the effective management of resources. Where control weaknesses are identified which create an unacceptable exposure to risk, resources should be allocated to 'plugging the gap'. This can take a variety of forms, depending upon the nature of the risk, the existing controls, and magnitude of the exposure.

Currently on an annual basis each Directorate will undertake a robustness of estimates and adequacy of resources review. This process feeds into the s151 Report to the Council on the robustness of estimates and the adequacy of reserves. As part of the process key risks are considered and actions documented.

Those controls currently in place may require strengthening, or new ones may need introducing. For example, it could be that an ICT solution is required to improve efficiency or enable additional monitoring; or possibly the feasibility of the service being provided by a partner instead of directly by the Council. These examples have a cost, some of which may be financial, some of which may have an opportunity cost. As a result, it is important that managers retain flexibility in their service and financial planning to enable developing risks to be managed. The converse may also apply; the risk process could identify risks which are over-controlled. Savings may be achieved by reducing the control environment, saving money and / or enabling the re-direction of staff to other areas to improve service delivery.

The relevant Service / Team/ Project risk register should be used to record business planning risks and actions planned / taken possibly including a description of the source of funding to strengthen controls. The result will be a concise analysis of the nature of the risk exposure, the response to the problem and the financing of the solution. Where budget variances occur as a result of the additional expenditure, the risk management documents can provide a concise and robust explanation to support this.

Business plans should be updated based on the results of risk assessments undertaken. Risk management should not be viewed in isolation, but should be used as an important tool to inform the business planning process. What we learn now should help us identify what we will do in the future, how we will achieve it, and the problems we may encounter. This will ensure that the risks and mitigations identified are considered and included in subsequent plans. The benefit will be that business plans are as relevant and accurate as possible, and contribute effectively to the achievement of objectives and the delivery of the outcomes required.

Business Continuity

Good Business continuity management within the Council involves detailed planning to help maintain the most critical services provided in the event of an interruption until it returns to "Business as Usual".

Within any risk register there will be many risks that could have a major impact on service delivery. It is, however, not always possible to mitigate these risks, therefore it is important that the service examines these risks in detail in advance, and develops a Business Continuity plan, which can be used to enable services to continue should an incident occur. An example of this could be where staff are unable to access offices due to an event such as adverse weather, fire or a flood.

Those services assigned 'Critical' status will need to operate to an agreed minimum acceptable level until business as usual has resumed. A plan needs to be developed to enable a plan of action to be implemented with minimum delay.

The business continuity plan needs to be developed in advance of an incident, because often with a little forethought many of the more serious consequences of an incident can be mitigated. This plan will be generic in so far as the basic information that it contains can be used to cover many different risk eventualities. As a service provider, continuity of service is vital for our customers and clients.

The Council has appropriate business interruption insurance in place to cover the cost associated with a major incident

