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To: Councillors Stevens (Chairman), Debs Absolom, Lovelock, McElligott, Page, Stanford-Beale and Terry

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21 January 2015

Your contact is: Simon Hill - Committee Services

NOTICE OF MEETING – AUDIT AND GOVERNANCE COMMITTEE – 29 JANUARY 2015

A meeting of the Audit & Governance Committee will be held on Thursday 29 January 2015 at 6.30pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

AGENDA

__CIVIC OFFICES EMERGENCY EVACUATION:__ If an alarm sounds, leave by the nearest fire exit quickly and calmly and assemble on the corner of Bridge Street and Fobney Street. You will be advised when it is safe to re-enter the building.

6. **BUDGET MONITORING 2014/15** 57

This report sets out the result of the budget monitoring exercise undertaken for 2014/15, based on the position to the end of November 2014.

AUDIT AND GOVERNANCE COMMITTEE MINUTES
25 SEPTEMBER 2014

Present:	Councillors Stevens (Chairman), D Absolom, Lovelock, McElligott and Page.

Also in attendance:

Alan Cross	Head of Finance
Paul Harrington	Head of Audit & Risk Management
Grant Slessor	KPMG
Steve Stimpson	Finance Officer
Ian Wardle	Managing Director
Tamas Wood	KPMG

8. MINUTES

The Minutes of the meeting of 2 July 2014 were confirmed as a correct record and signed by the Chairman.

9. APPROVAL OF 2013/14 ACCOUNTS, KPMG AUDIT MEMORANDUM & AUDIT OPINION

A Cross submitted a report stating that in accordance with the Accounts & Audit Regulations, the Committee, on behalf of Council was required to approve the Council's accounts by the end of September 2014. As part of the annual external audit process of the Council's accounts, KPMG had produced an Audit Memorandum to those charged with Corporate Governance prior to issuing their opinion. KPMG had indicated that subject to the approval of the accounts by the Committee, the receipt by them of a Management Representation letter, and the receipt by the Committee of the Report to those Charged with Governance, they would be in a position to issue an unqualified audit report on the (amended) Council's accounts, thus concluding the accounts and audit process for 2013/14.

Tamas Wood and Grant Slessor, KPMG, presented their report.

The Management representations letter and the Report to those Charged with Governance (ISA 260) were attached at Appendices 1 and 2. For reasons of size the formal accounts had not been included in the agenda papers but had been made available on the Council's website.

The report gave KPMG's opinion that "the Authority has good processes in place for the production of the accounts and good quality supporting working papers" and went on to confirm that the Council had "dealt efficiently with audit queries and the audit process has been completed within the planned timescales." The Committee was reassured that KPMG would be able to issue an unqualified opinion of the final accounts. The Committee asked whether KPMG could provide any guidance, using their experience of other local authorities, on potential areas of risk in the future, especially bearing in mind the requirement on local government to deliver significant ongoing savings.

Resolved:

(1) That the Management Representations letter, as appended to the report, from the Head of Finance be noted;

(2) That KPMG's (ISA 260) Report, as appended to the report, to those charged with governance be noted;

(3) That the final accounts for 2013/14 be approved, on behalf of the Council, in the knowledge that in doing so the Council's external auditors, KPMG, had been in a position to issue an unqualified opinion;

(4) That the Chairman of the Committee and relevant Lead Councillors be advised of 'early warning' signs of potential financial difficulties that could arise as a result of Councils' needs to deliver significant savings to their budgets, and whether there were any risks likely to occur in Reading and what action could be taken to mitigate the effect on the accounts that were identified.

10. STRATEGIC RISK REGISTER

P Harrington submitted a report updating the Committee on the Q2 status of the Council's 2014/15 Strategic Risk Register, in line with the requirements of the Council's Risk Management Strategy. The Register was attached at Appendix 1.

The report stated that the Corporate Management Team (CMT) maintained the Register on behalf of the Council, through the Head of Audit and Risk Management. The Register was reviewed on a quarterly basis by officers and formally refreshed six-monthly by CMT. The Register was presented to the Audit & Governance Committee approximately every six months, or more frequently if circumstances required an update. It had last been presented to the Committee at its meeting on 14 April 2014 (Minute 29 refers).

The report stated that although guidance was provided to officers in relation to the scoring of risks, with a view to providing consistency, it still remained a subjective process. An extensive consultation process had been undertaken involving CMT, Directorate Management Teams (DMTs) and Directorate Risk Champions. CMT had reviewed the scores to ensure reasonable consistency of approach. The primary aim of the report was to identify the key vulnerabilities that the officers considered needed to be closely monitored in the forthcoming months or years.

The Register was compiled from risks identified at directorate level, which had been escalated, along with high-level generic risks which required strategic management. Entries within the Register reflected the risks identified by CMT, thereby strengthening their strategic perspective, management response and controls. The inclusion of risks within any level on the Register did not necessarily mean there was a problem. On the contrary, it reflected the fact that officers were aware of potential risks and had devised strategies for the implementation of mitigating controls.

The mitigating actions taken to address the risks identified were set out in the Strategic Risk Register. These risks were monitored on a monthly basis by DMTs for directorate risks and by CMT for strategic risks.

Resolved: That the Q2 status of the Council's 2014/15 Strategic Risk Register be noted.

11. PUBLIC SECTOR INTERNAL AUDIT STANDARDS

P Harrington submitted a report informing the Committee of the Council's self-assessment of its performance against the Public Sector Internal Audit Standards (PSIAS) which had come into effect on 1 April 2013. The report stated that Compliance with these Standards was a requirement of the Audit & Accounts Regulations (2011) and should underpin the Internal Audit arrangements within the Council. The Head of Audit would be expected to report on conformance with the PSIAS in the annual report.

The PSIAS was derived from international standards and set clear principles for professional practice. In order to satisfy proper internal audit practices, there was a requirement to comply with the Standards and the Local Government Application Note. The Application set out the detailed checklist of individual areas that needed to be considered when coming to a view of the level of conformance with the PSIAS. The checklist included 330 items and the internal assessment found full or partial compliance in 96% of the items. Where the authority did not comply there was a requirement to set out an improvement programme to bring the Authority into compliance or seek an exception for non-compliance where it was not appropriate to comply. The Quality Assurance and Improvement Programme (QAIP), which was appended to the report, set out the areas of non-compliance and the proposed action to be taken.

Resolved: That the actions identified in the Quality Assurance and Improvement Programme, as appended to the report, be noted.

12. INTERNAL AUDIT & CORPORATE INVESTIGATIONS QUARTERLY PROGRESS REPORT

P Harrington submitted a report providing the Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in July 2014.

The report aimed to:

- Report back on those audit reviews outstanding at the year end (31 March 2014), which had been finalised in Q2 of the current financial year;
- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that had been subject to audit in Q1 and Q2;
- Advise the Committee of significant issues where controls needed to improve to manage risks effectively;
- Provide details of forthcoming audit reviews and the status of programmed audits;

- Track progress on the response to audit reports and the implementation of agreed audit recommendations.

The report also provided details of work which the Council's Corporate Investigations Team and Internal Audit had undertaken since April 2014 in respect of investigations into benefit, housing tenancy fraud and other corporate investigations. The report also referred to the Government's decision to establish a Single Fraud Investigation Service (SFIS) nationally, as part of Welfare Reform, and transfer local authority work on Housing and Council Tax Benefit investigations to the new body. The transfer day to the SFIS would be 1 December 2014 and would result in Council Corporate Investigations staff moving to the SFIS. The Council would remain responsible for amending Housing Benefit and Council Tax Benefit claims along with the calculation and recovery of any Housing Benefit and Council Tax benefit overpayments. The SFIS would not be responsible for investigating non-benefit and local taxation fraud such as Council Tax Single Persons Discount or Tenancy Fraud. The Council would also remain responsible for protecting the Local Council Tax Support fund. As a result, it had been decided that the Council would retain a corporate investigations resource albeit at a reduced size to reflect the reduction in workload.

Resolved: That the report be noted.

13. TREASURY MANAGEMENT 2014/15 ACTIVITY TO AUGUST

A Cross submitted a report containing information about the Council's treasury activities to the end of August in 2014/15. The report was based on a template provided by Arlingclose, the Council's treasury advisor, for Q1 activity updated to cover developments in July and August.

A Cross also gave a presentation at the meeting to accompany the report, which included information on the Council's borrowing costs in the short and long run and returns on investment with comparative data to measure performance against other local authorities.

Resolved:

(1) That progress in implementing the 2014/15 Treasury Strategy be noted;

(2) That A Cross be thanked for his presentation.

14. BUDGET MONITORING 2014/15

A Cross submitted a report which had also been considered by the Policy Committee at its meeting on 22 September 2014 setting out the results of a detailed budget monitoring exercise undertaken for 2014/15, based on the position to the end of July 2014.

The results of Directorate and Housing Revenue Account budget monitoring exercises were attached at Appendices 1A-1D.

The report stated that the final General Fund Balance at the end of 2013/14 had been £5.5m. Assuming remedial action highlighted in the Directorate commentaries was carried out, there was now expected to be an overspend on revenue budgets of £306k. Cost pressures in Environment & Neighbourhood Services were offset by Corporate Support Services and Treasury, which would leave the General Fund balance at its £5m minimum level at 31 March 2015.

The Policy Committee had noted the report and the implementation of measures to keep overall net expenditure within the Approved Budget and ensure that the minimum general fund balance was maintained.

Resolved: That the report be noted.

(The meeting started at 6.30pm and closed at 7.31pm).

READING BOROUGH COUNCIL

HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**29 JANUARY 2015**	**AGENDA ITEM:**	**3**
TITLE:	**AUDIT & INVESTIGATIONS QUARTERLY PROGRESS REPORT**		
LEAD COUNCILLOR:	**COUNCILLOR STEVENS**	**PORTFOLIO:**	**CHAIRMAN OF AUDIT & GOVERNANCE COMMITTEE**
SERVICE:	**FINANCE**	**WARDS:**	**N/A**
LEAD OFFICER:	**PAUL HARRINGTON**	**TEL:**	**9372695**
JOB TITLE:	**CHIEF AUDITOR**	**E-MAIL:**	Paul.Harrington@reading.gov.uk

1. EXECUTIVE SUMMARY

1.1 This report provides the Audit & Governance Committee with an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report in September 2014.

1.2 The report aims to:

- Provide a high level of assurance, or otherwise, on internal controls operated across the Council that have been subject to audit.
- Advise you of significant issues where controls need to improve to effectively manage risks.
- Provide details of forthcoming audit reviews and the status of programmed audits
- Track progress on the response to audit reports and the implementation of agreed audit recommendations

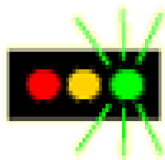
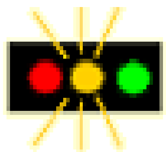
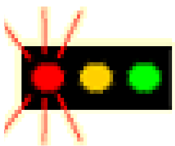
1.3 In addition the report provides details of the work the Council's corporate investigations team and internal audit have undertaken since April 2014 with respect of investigations into benefit, housing tenancy fraud and other corporate investigations.

2. RECOMMENDED ACTION

2.1 The Audit & Governance Committee are requested to consider the report

3. ASSURANCE FRAMEWORK

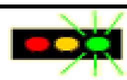
3.1 Where appropriate each report we issue during the year is given an overall assurance opinion. The opinion stated in the audit report provides management with a brief objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the terms of reference agreed at the start of the audit; it is not a statement of fact. The opinion should be independent of local circumstances but should draw attention to any such problems to present a rounded picture. The audit assurance opinion framework is as follows:

		Definition
Substantial		A Substantial opinion will be given where controls are generally operating effectively, however minor control weaknesses may have been identified. There are however, no high risk (priority 1) recommendations being made.
Conditional		A conditional opinion will only be given if the areas where the controls are missing or not consistently applied do not represent a significant risk to the system as a whole. Where a conditional opinion is given the report should clearly explain the area or areas to which the conditional opinion relates.
Limited		Risk that objectives will not be met, or are being met without achieving efficiency, effectiveness and/or value for money. A limited opinion will only be given where controls are not applied, consistently and effectively

3.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make.

3.3 It is management's responsibility to ensure that effective controls operate within their service areas. However, we undertake follow up work to provide independent assurance that agreed recommendations arising from audit reviews are implemented in a timely manner. We intend to follow up those audits where we have given limited assurance.

4. SUMMARY OF AUDIT FINDINGS

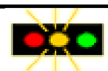
		RECS			Assurance
4.1	LSTF (Cycle Hire)	0	0	3	

4.1.1 Reading has been awarded over £25m from the Department for Transport's Local Sustainable Transport Fund (LSTF) to deliver local improvements to encourage economic growth and reduce carbon emissions. The funding comprises £4.9m for a LSTF Small Project and £20.7m for a LSTF Large Project. The Large Project is being delivered in partnership with Wokingham Borough Council, West Berkshire Council and NHS Berkshire West. The LSTF Small Project funding will support the implementation of measures across the Borough to improve walking, cycling and public transport choices.

4.1.2 Proper governance arrangements were established from the outset of the LSTF programme, which enabled the Council in partnership with neighbouring Authorities to secure funding. Programme management and effective monitoring has ensured the successful delivery of projects to date.

4.1.3 Our audit review focused on examining the governance arrangements of the LSTF and reviewing the procurement and project management arrangements over the Cycle Hire Scheme.

4.1.4 In relation to the Cycle Hire scheme, a sound and fair procurement process, which complied with both local and national procurement guidelines, was followed. Full and complete records had been retained outlining the process followed through to the final award decision. Sound programme and project management arrangements were found to be in place to ensure the successful delivery of the scheme. Projects risks were appropriately identified and managed accordingly.

		RECS			Assurance
4.2	Licensing	0	8	2	

4.2.1 The Council has a statutory duty to enforce licensing throughout the Borough. The Licensing Section sits within Regulatory Services and is responsible for giving advice on and issuing licenses and undertakes enforcement work to check compliance with the various licence conditions. A restructuring of the service has moved the administrative functions of the team to Customer Management Services. Although this has brought about efficiencies, we did pick up on some issue over conflicting priorities, which have arisen as a result of the new reporting lines. For example, the introduction in new charges, were not promptly communicated to the administration team and caused a delay in applying the revised fees. Following the audit discussions will take place between the Regulatory Services and Customer Services on how to improve the flow of information and operational practices.

4.2.2 The way in which fee setting is conducted is currently subject to an appeal at the Supreme Court and our audit highlighted concerns that the service would not be able to substantiate the methodology used to calculate fees and charges. Officers have raised the potential risks with the restitution of fees and have been working with finance on a detailed modelling for Taxi and Premises Licensing fees, which separate out administrative and enforcement costs.

4.2.3 There is an existing Corporate Enforcement Policy and subject to the outcome of the appeal a new enforcement strategy may be required which will take into account a reduction in enforcement resource.

4.2.4 A key issue for the service is the storage, retention and destruction of electronic records in the Civica APP database (FLARE[1]) and on personal and shared drives. This issue may not be unique to the Council's licencing function. Discussions have taken place with Civica and a system audit is due to be carried out. A report detailing the matter will be presented to the Digital Information Board.

		RECS			Assurance
4.3	Deferred Payment Scheme	0	2	3	

4.3.1 A deferred payment means that someone can 'defer' their payment of residential care charges until after their death. The deferred element of the care charge is the total value of residential care less the assessed contribution and typically results either in a charge being put on the clients property, or a solicitor undertaking to settle residential care debt from the funds made available from the sale of a property and other financial assets.

4.3.2 Agreements can only be entered into if the client has sufficient mental capacity to make such a decision, or there is a legal representative (power of attorney) to make such a decision on their behalf. Failing this, an interim agreement is put in place. At the time of the audit there was only one client recorded as having a deferred payment arrangement and 15 clients having an interim agreement.

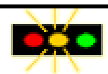
4.3.3 There are inherent (financial) risks to the Authority as a result of non-payment and although there are systems in place to monitor client contributions and the level of deferred debt, there is inconsistent approach to record keeping, for example not all information is held or notated on the primary social care system (Frameworki[2]). We

[1] FLARE is an integrated IT solution for regulatory services, including Environmental Health, Trading Standards, Planning, Building Control, Streetcare, ASB, Highways and Parks.

[2] Frameworki is the electronic recording system on which social care staff record information on their contacts and activity relating to individual service users

recommended that the format of record keeping should also be standardised to provide a consistent approach.

4.3.4 With the implementation of the Care Act in April 2015, management have confirmed that a full review of the policies and procedures around this area is underway. The review will involve the debt recovery team and their role in the process. This is expected to be completed by end of March 2015 and will address the recommendations made in the report. A progress reports will come back to CMT in June 1015.

		RECS			Assurance
4.4	Access to Records	0	3	1	

4.4.1 The Authority maintains personal data in the form of Social Care records for everyone who has contact with Social Care Services. Under the Data Protection Act 1998, individuals have the right of access to their personal data. The authority is required to keep an individual's social care records confidential and to process the information fairly.

4.4.2 A Subject Access Request (SAR) needs to be made in writing and must be responded to within 40 days of receiving it. However, there is no central point of contact regarding subject access requests to ensure that the approach is consistent and completed within the specified timescales.

4.4.3 The Customer Relations Team (CRT) is currently the single point of contact for closed Children's Services requests (these are fully processed) and Adult Social Care requests (these are acknowledged, logged and passed to the relevant team to process, but not monitored). It is our opinion that there is a specific need to adopt a corporate approach to subject access requests throughout the authority, perhaps with further detailed guidance for Social Care, to ensure that they are being recognised and dealt with appropriately and consistently.

4.4.4 The maximum nominal charge is also required by Legal Services to complete requests, however it is not charged for Social Care records. Consideration needs to be given to bringing forward a proposal for charging as part of the annual review of fees and charges.

4.4.5 The preparation of files is a resource intensive process where records are large and the case is complex. The Access to Records Social Worker is part time and the only person within RBC who prepares these closed cases, this is a potential risk to the authority in terms of business continuity and resilience in the event of unforeseen circumstances.

4.4.6 There is a desire to raise the profile of the requirements of the Data Protection Act, in particular in relation to social care records. New draft guidance on Data Governance has been prepared and it is intended that this is adapted into guidance for use across the Council. A handbook for staff will also be produced from the same document; again to be adopted across the Council.

		RECS			Assurance
4.5	Entitlement & Assessment	0	4	1	

4.5.1 Customer Services was restructured together with Revenues, Benefits and Income Management to develop a more stream-lined function. These functions have been reorganised into two core functions; Customer Contact and Income & Assessment. The Income & Assessment function is responsible for the recovery of income and for validating any entitlement to benefits or council tax support. As a consequence of restructuring a set of consolidated procedures are being drawn together to confirm processes for applying changes to council tax and housing benefit standing data.

4.5.2 Work-loads remain high and pressures exist in balancing the need to process claims on a timely basis, with the necessity to maintain checks and balances to verify entitlement.

		RECS			Assurance
4.6	Health & Safety Review	0	5	1	

4.6.1 Health and safety law place duties on organisations and employers, and directors can be personally liable when these duties are breached. The Corporate Management Team has both collective and individual responsibility for health and safety.

4.6.2 A great deal of progress has been made over the past 18 months by the Council in driving improvements in the control of health and safety risks; however there are areas which could be further improved to ensure everything is being done to corporately manage health & safety risks.

4.6.3 The Council has a comprehensive suite of policies and procedures relating to health and safety, which includes appropriate descriptions of roles and responsibilities for relevant staff. In addition to having a Health and Safety Policy, the Council has produced a policy statement which sets out its aims in respect of health and safety and an action plan confirming how these will be achieved.

4.6.4 New permanent and fixed term contract staff receive health and safety induction and training, although use of the iTrent[3] system should be improved to better record the mandatory training required under the H&S Policy.

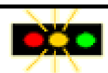
4.6.5 Directorate H&S Action plans for 2014/15 have now been updated following the audit review to take into account the transfer of services under the

[3] HR/Payroll Database

Council's Reshape Programme and have been reviewed to ensure they cover all the objectives of the Council's Health & Safety Action Plan.

4.6.6 The Council needs to build on the improvements made by continuously monitoring completion of health and safety audits and local safety practices for high risk services, review lessons learned and improve attendance at health and safety Committees.

4.6.7 Work has already begun on implementing the audit recommendations and an improvement plan has been agreed by the Corporate Management Team.

		RECS			Assurance
4.7	Public Health	0	6	1	

4.7.1 The Health & Social Care Act 2012 has given local authorities a much stronger role in shaping services and improving the health of local people. A Joint Arrangement is in place between each of the Berkshire authorities for the provision of Public Health Services, with a single Director of Public Health employed by the host authority, Bracknell Forest Council.

4.7.2 Suitable governance arrangements were found to be in place overseen by a Public Health Advisory Board, whose primary role is to ensure that the performance and activity of contracts are monitored.

4.7.3 The Council has produced a Health & Wellbeing Strategy, which sets out the Councils local priorities. The Health & Wellbeing Board supports the achievement of these priorities, particularly through setting the strategic context through which health and wellbeing services are commissioned, and thereafter managed.

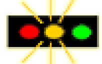
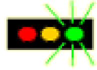
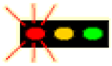
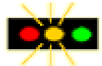
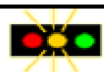
4.7.4 In support of the strategy an action plan has been developed, which sets out individual actions against each of the goals and objectives set out in the strategy. Whilst the action plan is a clear indication of the ongoing monitoring and progress towards the aims of the strategy, we recommended that clear targets and deadlines are set with specific responsibility for each of the tasks.

4.7.5 Due to a surplus in the Public Health budget, existing council services which delivered against the Public Health outcomes framework were also funded. However all services supported by the Public Health Grant are appropriate and in line with the grant conditions.

4.7.6 Recommendations were made to help improve control over contract monitoring, risk and performance management.

4.8 <u>School Audits</u>

4.8.1 We have undertaken five school reviews this quarter as follows:

	Draft	Final	RECS			Assurance
Thameside Primary School	Nov-14	Dec-14	0	3	8	
Caversham Primary School	Nov-14	Nov-14	0	1	8	
Phoenix	Oct-14	Nov-14	2	9	2	
Blagrave	Dec-14	Dec-14	0	3	4	
English Martyr's	Nov-14	Nov-14	0	4	7	

4.8.2 The audit of Phoenix College followed a direct request by the Head of Service. The college provides education to students whose main special needs and barriers to learning are emotional, behavioural and social. Phoenix College has held a consistent 3% brought forward figure on the budget over the last two years, and both staffing and pupil levels have also remained constant. Whilst the school has been judged as Good by OfSTED there were some shortcomings in the governance framework. The college has responded positively to the audit review with a clear action plan to address the audit recommendations. The Head of Service is monitoring progress of the action plan as part of the wider governance improvement process via a bi-monthly formal review meeting with the Chair of Governors and Headteacher.

5. PLANNED AUDIT FOLLOW UP REVIEWS

5.1 Internal audit will look to follow up those reviews which have been assigned limited assurance. Resources permitting we envisage that the follow up review will take place between 6 - 12 months after the initial audit or after the recommendations were agreed to be implemented (if later). Audit areas given limited assurance which we have planned to follow up are as follows:

Audit Title	Status
Agency Staffing Contracts*	
Learning Disabilities Commissioning	😐
Corporate Procurement*	
Coley Primary School	☺
Children & Adults Commissioning*	
Deputyship & Appointeeship*	

Key: ☺ - Implemented 😐 - Partly implemented ☹ - Not implemented

*to be programmed in for follow up.

5.2 Learning Disabilities Commissioning – Follow up review

5.2.1 Since our audit review the principal focus of management action has been to instigate a targeted review of people with Learning Difficulties (LD) receiving supported living or residential care services and also of Ordinary Residence cases. The purpose of the review has been to ensure that care needs have been properly assessed, that services remain appropriate and also that these are provided in a cost effective way. To achieve this, a specific 'recruit to save' post has been created and it is this officer's primary task to review LD clients on a targeted basis.

5.2.2 There has been considerable effort to investigate and review the LD caseload, although the actual savings being delivered are not likely to meet the savings target figure originally set. There remain a large number of cases still to be reviewed and if additional potential savings are to be realised, further and specific management focus needs to be given to the future direction of these tasks.

6. INVESTIGATIONS

6.1 Benefit Fraud - This has been a period of transformation with the roll out of the Single Fraud Investigation Service (see section 7 below), however there are a number of ongoing Housing Benefit fraud cases which did remain with RBC. These are cases where legal charges have been laid or legal advice obtained.

6.2 For the period in question (Sept – Nov) we processed two Administrative penalties[4] to the value of £3,472. The total Housing Benefit overpayment was £6,945. Also there were two successful criminal prosecutions for benefit fraud within the period. The total overpaid Housing benefit on these cases was £12,450.99.

6.3 Since 1 April 2014 there have been twenty sanctions made up of ten prosecutions and ten administrative penalties. Total benefit overpayment on the sanctioned cases is to the value of £225,922. This figure shows all sanctioned cases and does not count any case where a decision not to sanction has been made.

6.4 In one ongoing case where the overpayment value is in excess of £32,000 we have begun proceedings under the Proceeds of Crime Act (POCA). The POCA application will, if successful, ensure that the full monies outstanding will be returned back to RBC within a specified period set by the court. The hearing is listed in crown for January 2015.

6.5 Housing/Tenancy Fraud Investigations - Since 1 April 2014 we have received twenty three referrals of Housing/tenancy Fraud and have assisted in the return to stock of six Council properties and two properties for Social Landlords within Reading. Over the last period (Sept-Dec 2014)

[4] We can offer an administrative penalty in circumstances where it is felt that it would be more suitable to dispose of the matter without criminal proceedings being initiated. An administrative penalty is an alternative to prosecution. If we offer an administrative penalty and the claimant refuses it, we retain the right to prosecute.

we have investigated five referrals of allegations of tenants not resident (possible subletting), three are ongoing investigations and one of these cases of alleged fraudulent sub-letting is due to be heard at Crown Court in January 2015. There have been two investigations in respect of succession frauds, one of which was heard at County Court in November 2014, where the Council was successful in its application to have the property returned.

6.6 It is difficult to quantify the financial implications of these types of investigations, however the national agreed figure of £18,000 is considered to be the average cost per Local Authority for retaining a family in temporary accommodation. Using this figure (8 x £18,000) in the region of £144,000 could have been saved as a result of tenancy investigations.

6.7 We have been awarded grant funding of £103,000 to provide an intelligence hub for partnership data sharing and cross boundary fraud prevention with Bracknell Forest Council, Civica Fraud Detection Solutions and a number of Housing Associations in the Reading and Bracknell area. We will work jointly in partnership to deliver proactive non-benefit fraud prevention, detection and deterrence through the sharing and matching of data. Data feeds such as tenancy, housing lists and Council tax will be cross checked and risk assessed to identify high risk cases for appropriate action.

6.8 Blue Badge investigations - In the period we have undertaken two proactive drives within the Town Centre. The purpose of these drives is to check the use of Blue Badges and locate any false, lost or stolen badges. It is also useful in identifying miss-use of badges.

6.9 Social Services Investigations - We have been involved in a complex investigation into payments made in respect of an Adult Care provider and have successfully prosecuted one claimant in receipt of personal budget payments on charges of fraud and false accounting.

6.10 lawful developments certificates - there have been two investigations of potential fraud where applicants have submitted fictitious supporting statements in order to secure an exemption from the need to apply for planning permission. We are working closely with legal on possible criminal charges for false statements.

6.11 Electoral Registration - We have been, and will continue, to work alongside officers from the Electoral registration service for the prevention and detection of electoral fraud.

7. NEW AUDIT & INVESTIGATIONS STRUCTURE

7.1 As part of Welfare Reform, the Government have created a Single Fraud Investigation Service (SFIS) nationally and our investigation work on Housing and Council Tax Benefit was transferred across to the Department for Work and Pensions (DWP) along with some of our staff on the 1st December 2014.

7.2 The amendment of Housing Benefit and Council Tax Benefit claims remains with Councils along with the calculation and recovery of any Housing Benefit and Council Tax Benefit overpayments.

7.3 The SFIS will not be responsible for investigating non-benefit and local taxation fraud such as Council Tax Single Persons Discount or Tenancy Fraud. Local Council Tax Support will not be included in SFIS and the responsibility for protecting this fund will remain with the Council.

7.4 The Reshape of the Audit & investigations team as a consequence of the Single Fraud Investigation Service has led to a reduction of 6 FTE posts, including one senior internal auditor post. The Council agreed to retain a small resource investigations resource, which has merged with the internal audit team.

8. LOCAL GOVERNMENT TRANSPARENCY CODE 2014

8.1 The Government revised the Local Authority Data Transparency Code and has now made it mandatory for all local authorities to publish the following information about their counter fraud work, including:

- number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers
- total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud
- total number (absolute and full time equivalent) of professionally accredited counter fraud specialists
- total amount spent by the authority on the investigation and prosecution of fraud, and
- total number of fraud cases investigated.

8.2 The Government have also recommended that local authorities should go further than the minimum publication requirements set out above and publish:

- total number of cases of irregularity investigated
- total number of occasions on which a) fraud and b) irregularity was identified
- total monetary value of a) the fraud and b) the irregularity that was detected, and
- total monetary value of a) the fraud and b) the irregularity that was recovered.

9. CONTRIBUTION TO STRATEGIC AIMS

9.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

10. COMMUNITY ENGAGEMENT AND INFORMATION

10.1 N/A

11. LEGAL IMPLICATIONS

11.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

11.2 Section 151 of the Local Government act 1972 requires every local authority to “make arrangements for the proper administration of its financial affairs” and to ensure that one of the officers has responsibility for the administration of those affairs.

11.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations 2011, in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

11.4 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards **Issued by the Relevant Internal Audit Standard Setters.** This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

12. FINANCIAL IMPLICATIONS

12.1 Dealt with in the body of the report.

13. BACKGROUND PAPERS

13.1 N/A

READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**29 JANUARY 2015**	**AGENDA ITEM:**	**4**
TITLE:	**DRAFT TREASURY STRATEGY & INVESTMENT STATEMENT FOR 2015/16**		
LEAD COUNCILLOR:	**COUNCILLOR STEVENS**	**PORTFOLIO:**	**CHAIRMAN OF AUDIT & GOVERNANCE COMMITTEE**
SERVICE:	**ALL**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**ALAN CROSS**	**TEL:**	**0118 9372058**
JOB TITLE:	**HEAD OF FINANCE**	**E-MAIL:**	**Alan.Cross@reading.gov.uk**

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 CIPFA recommends that prior to Councils approving their Annual Treasury Strategy & Investment Statement, that it should be considered by the Council's Audit Committee as part of the overall governance arrangements.

1.2 The statement will in due course form part of the Council's overall budget proposals, presented as part of the Budget Report to Council in February.

1.3 This draft strategy may see some amendments to ensure it is consistent with the remainder of the budget proposals, but major change impacting 2015/16 is not anticipated. A short presentation will be made at the Committee to highlight key treasury management issues.

2. RECOMMENDED ACTION

2.1 That the committee considers the draft Treasury Strategy & Investment Statement for 2015/16.

3. POLICY CONTEXT

The Council is required to have a Treasury Strategy & Investment Statement in place in order to comply with legislative requirements and recommended professional practice, As the strategy is linked to the Council's overall budget strategy, it is formally considered and approved as part of the budget (as some of the prudential indicator limits are formally reserved to Council to set). This report enables Audit & Governance to consider the draft statement for 2015/16 (at Annex A) ahead of Cabinet & Council in February.

4. THE PROPOSAL

The draft Treasury Management Strategy Statement is attached in the Appendix. There will be a brief presentation at the Committee meeting to explain the key treasury issues the council is likely to face over the next year.

5. CONTRIBUTION TO STRATEGIC AIMS

Proper management of the Council's Treasury position helps support the overall achievement of the Council's financial objectives and service strategies.

6. COMMUNITY ENGAGEMENT AND INFORMATION

The Council does not directly consult with the community on this particular issue, though occasionally receives queries about its treasury activity to which an appropriate response is made.

7. EQUALITY IMPACT ASSESSMENT

An EIA is not relevant at this time.

8. LEGAL IMPLICATIONS

None, at this stage.

9. FINANCIAL IMPLICATIONS

As set out in the draft statement

10. BACKGROUND PAPERS

The statement has been prepared using a template provided by Arlingclose, adapted for Reading's needs.

CIPFA Treasury Management & Prudential Codes and guidance notes.

Treasury Management Strategy Statement 2015/16

Contents

Annexes

1 Introduction

1.1 The Treasury Management Strategy Statement (TMSS) is an annual statement the Council is required to approve each year of our intended treasury activity, setting constraints under which that activity will (usually) operate. Given the technical nature of the subject, by way of introduction the statement is intended to explain

- how the Council tries to minimise net borrowing costs over the medium term
- how we ensure we have enough money available to meet our commitments
- how we ensure reasonable security of money we have lent and invested
- how we maintain an element of flexibility to respond to changes in interest rates
- how we manage treasury risk overall.

1.2 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. DCLG guideline requires the Authority to approve an investment 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 both the CIPFA Code and the CLG Guidance.

1.3 The purpose of this TMSS is, therefore, to approve the:

- Treasury Management Strategy for 2015/16
- Annual Investment Strategy for 2015/16
- Prudential Indicators for 2015/16, 2016/17 and 2017/18
- MRP Statement (in connection with debt repayment)

1.4 The Authority has both 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 risk are therefore central to the Authority's treasury management strategy.

2 External Context

2.1 **Economic background:** There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

2.2 The Bank of England focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Monetary Policy Committee (MPC). Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August and November *Inflation Reports*.

2.3 **Credit Risk Outlook:** The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The *Bank Recovery and Resolution Directive* promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the first, and possibly only senior creditors likely to incur losses in a failing bank after July 2015.

2.4 The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, **the credit risk associated with making unsecured bank deposits will increase** relative to the risk of other investment options available to the Council.

3 Interest rate forecast

3.1 Our treasury management advisor, Arlingclose, currently forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is ultimately more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. CCLA, one of our money market fund managers recently advised that a consensus “city” view was that Bank Rate would rise very steadily over the next 4-5 years to 1.75-2%. With regard to longer term yields, Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%. A key theme of all these forecasts is that there is likely to be short term money available to borrow at low interest rates for the foreseeable future.

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

3.3 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.4%, and that new long-term loans will be borrowed at an average rate of 1%.

4 Local Context

4.1 The Council currently (31 December) has £316.7m of borrowing and £47.8m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.14 Actual £m	**31.3.15 Estimate £m**	**31.3.16 Estimate £m**	**31.3.17 Estimate £m**	**31.3.18 Estimate £m**
General Fund CFR	208.2	214.0	245.5	262.5	275.0
HRA CFR	194.9	194.2	194.9	192.9	195.0
Total CFR	**403.1**	**408.2**	**439.4**	**455.4**	**460.0**
Less: Other debt liabilities *	-34.0	-33.4	-32.6	-31.9	-31.0
Borrowing CFR	**369.1**	374.8	406.8	423.5	**429.0**
Less: External borrowing **	319.9	**316.7**	**307.2**	**300.7**	294.5
Maximum External Borrowing Requirement	**49.2**	58.1	99.6	122.8	**134.5**
Less: Other Cash Balances (Working capital & reserves)	**83.5**	80.0	75.0	65.0	**60.0**
Cumulative Investments/ New Borrowing Requirement	**-34.3**	**-21.9**	**24.6**	**57.8**	**74.5**

* finance leases and PFI liabilities that form part of the Authority's debt

** shows only loans to which the Authority is committed and excludes optional refinancing

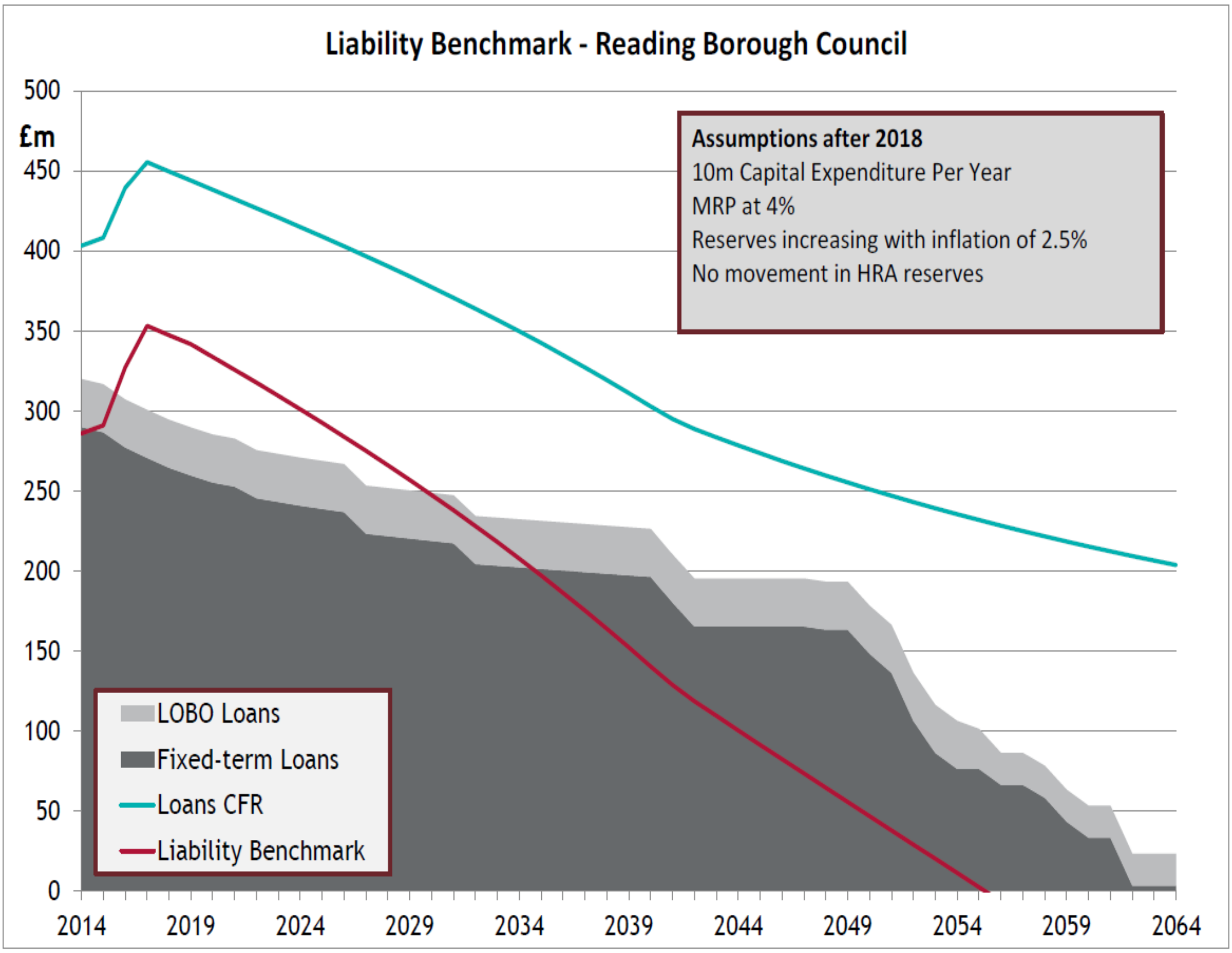
4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to normally holding a minimum investment balance of currently £10m.

4.3 The Authority has an increasing CFR due to borrowing funding the capital programme and reducing other cash balances, that over time will use up the cash currently invested, and we will need to borrow up to £75m over the forecast period, though at most £25m of this will be required in 2015/16.

4.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2015/16 and the subsequent years.

4.5 To assist with its long-term treasury management strategy, the Authority and its advisers have created a liability benchmark, which forecasts the Authority's need to borrow over a 50 year period. Following on from the current 3 year capital programme forecasts in table 1 above, the benchmark assumes:

- capital expenditure funded by borrowing as set out in table in Section 2 of Annex C
- minimum revenue provision on new capital expenditure based on an average 25 year asset life
- income, expenditure and reserves all increase by 2.5% inflation a year



4.6 The chart shows that we'll have an increasing borrowing requirement over the next 3-4 years, but after that our borrowing needs will fall. This implies that the borrowing we need to do should be of a relatively short term nature, subject to developments in the interest rate environment.

5 Borrowing Strategy

5.1 The Council currently holds £316.7 million of loans, a decrease of £11.5 million over the last year, reflecting our present strategy for funding the capital programme by using "internal borrowing" and reducing investments. However, the balance sheet forecast in table 1 (and our detailed treasury budget analysis) suggests we will need to borrow up to £25m towards the end of 2015/16. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £400 million.

5.2 Objectives: Our main 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 Authority's long-term plans change is a secondary objective.

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

5.4 By doing so we are 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 us with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2015/16 with a view to keeping future interest costs low, even if this causes additional costs in the short-term.

5.5 In addition, the Council may borrow short-term loans (normally for up to one month) to cover cash flow shortages.

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

Public Works Loan Board (PWLB)
UK local authorities
any institution approved for investments (see below)
any other bank or building society authorised to operate in the UK
UK public and private sector pension funds
capital market bond investors through the Local Capital Finance Company (the Municipal Bond Agency) and other special purpose companies created to enable local authority bond issues
any other party that establishes a presence in the LA market not covered by the above categories.

5.7 In addition, capital finance may be raised by the following methods that are not borrowing, subject to the Head of Finance being satisfied the use of the method provides value for money to the Council/ These are generally classed as other debt liabilities:

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

5.8 We have previously raised the majority of our long-term borrowing from the PWLB but continue to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

5.9 **LGA Bond Agency:** In particular we subscribed as one of 37 founding shareholders in the Local Capital Finance Company (LCFC) which was launched last year by the Local Government Association and is expected to be formally established in 2014 as an operating alternative to the PWLB. LCFC plans to issue bonds on the capital markets and lend the proceeds to local authorities. Because LCFC is structured as a company, rather than being a "government agency", borrowing will be slightly more complicated than via the PWLB; borrowing authorities will 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 different lead times, probably initially several weeks between committing to borrow and knowing the exact interest rate payable. As part of our commitment to the launch the Head of Finance has indicated that in principle, and subject to a final consideration at the time we will participate as a smaller borrower in an early bond issue by the Agency. Key issues and progress will be reported to Policy Committee and/or Audit & Governance Committee as appropriate.

5.10 The Authority holds £30m 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. £25m of these LOBOS have options during 2015/16, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £50m. We also understand that because banking regulation has impacted how banks account for these loans, some LOBO lenders have been approaching local authorities offering early settlement terms. Should such an approach be received we will evaluate it with the assistance of Arlingclose as treasury advisor.

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

6 Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The 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 cost saving or a reduction in risk. The way the PWLB formula works makes this relatively unlikely to be pursued.

7 Investment Strategy

7.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £34.0m and £74.2 million but lower levels are expected to be maintained in the forthcoming year.

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

7.3 Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2015/16. All of the Council's surplus cash is currently invested in short-term unsecured bank deposits, call accounts and money market funds. At the end of 2013/14 our working capital was almost £40m, and whilst this fluctuates during the year, a figure of this magnitude is not unusual. In the circumstances we propose examining the case before 31/3/15 of beginning to invest up to half this sum, i.e. up to £20m that in a longer-term investment, with a 5 year+ view. Initially CCLA's Property Fund, which is an investment vehicle designed solely for collective investments by local authorities in the UK property market, in which an increasing number of authorities have invested over the last 12 months. This diversification will therefore represent a substantial change in our investment strategy over the coming year. The long term performance of such funds has been to yield up to around 5%pa, though with the risk that from time to time the capital value may be eroded in the short term. Such investments will only be undertaken after taking treasury advice from Arlingclose and on the specific authority of the Head of Finance.

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Counterparty		Cash limit	Time limit †
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£20m each	10 years*
	AA+		5 years*
	AA		4 years*
	AA-		3 years*
	A+		2 years
	A		1 year
	A-		
The Authority's current account bank Lloyds Bank plc should circumstances arise when it does not meet the above criteria		£1m	next day***
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		£20m each	50 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher		£5m each	10 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings		£2m each	5 years
UK Building Societies without credit ratings		£10m each	1 year
Money market funds and other pooled funds (including the CCLA Property Fund)		Up to £20m each	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser		£5m each	3 months
		£1m each	1 year
		£100k each	5 years

† the time limit is doubled for investments that are secured on the borrower's assets
* but no longer than 2 years in fixed-term deposits and other illiquid instruments
** but no longer than 5 years in fixed-term deposits and other illiquid instruments

***this category was previously provided to enable overnight urgent lending to the Co-Operative Bank – we do not expect Lloyds Bank to fall into this category.

Table 3: Current Counterparty List as at 31st December 2014

Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Maximum Maturity Limit (term deposits and instruments without a secondary market)	Maximum Maturity Limit (negotiable instrument)
UK	Co-operative Bank (for banking & liquidity purposes only)				
UK	Clydesdale Bank (for banking & liquidity purposes only)		10%		
UK	Santander UK Plc (Banco Santander Group)	10		2 years	5 years
UK	Bank of Scotland (Lloyds Banking Group)	20	22.5%	2 years	5 years
UK	Lloyds TSB (Lloyds Banking Group)	20		2 years	5 years
UK	Barclays Bank Plc	20		2 years	5 years
UK	HSBC Bank Plc	20		2 years	5 years
UK	Nationwide Building Society	10		2 years	5 years
UK	NatWest (RBS Group)	0		2 years	5 years
UK	Royal Bank of Scotland (RBS Group)	0		2 years	5 years
UK	Standard Chartered Bank	10		2 years	5 years

2 years is the maximum approved duration for term deposits and illiquid investments (those without a secondary market), although in practice the Authority may be investing on a shorter term basis depending on operational advice of the authority's treasury management adviser.

5 years is the maximum approved duration for negotiable instruments such as Certificates of Deposits, Medium Term Notes and Corporate Bonds, although in practice the Authority may be investing for shorter periods depending on operational advice of the authority's treasury management adviser.

7.4 These tables must be read in conjunction with the notes below

7.5 Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

7.6 Banks and Building Societies ascribed by Arlingclose 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. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank.

7.7 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

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

7.9 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.

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

7.11 Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

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

7.13 Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority'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.

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

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

7.16 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.

7.17 Specified Investments: The CLG Guidance defines specified investments as those:

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

The Authority 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.

7.18 Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 4: Non-Specified Investment Limits

	Cash limit
Total long-term investments	Higher of £30m or 30% of total investments
Total investments without credit ratings or rated below A-	Lower of £30m or 40% of total investments
Total investments with institutions domiciled in foreign countries rated below AA+	£0m
Total non-specified investments	£30m

7.19 Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be c. £[18] million on 31st March 2015/2016 {forecast from 2014/15 budget report}. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will normally be £20 million (though the Head of Finance may increase this for very short periods should cash flow and market conditions require a temporary increase. 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 (e.g King and Shaxson), foreign countries and industry sectors as below:

Table 5: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£20m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m in total
Registered Providers	£5m in total
Unsecured investments with Building Societies	£5m each
Loans to unrated corporates (including loans to small business via a pooled fund)	£5m in total
Money Market Funds	£10m each

8 Liquidity Management

8.1 The Council uses purpose-built (web-based) cash flow forecasting software to help determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

9 Treasury Management Indicators

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

9.1 **Security**: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target
Portfolio average credit score	*6.0*

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

	Target
Total cash available within 3 months (above estimated cash flow requirements)	£10m

9.3 **Interest Rate Exposures**: This indicator is set to control the Authority’s exposure to interest rate risk. This Authority calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments, as percentage of fixed rate debt).

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	120%	120%	120%
Upper limit on variable interest rate exposure	50%	50%	50%

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

9.4 **Maturity Structure of Borrowing:** This indicator is set to control the Authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

<table>
<tr><th>Maturity Structure of Borrowing</th><th>Upper</th><th>Lower</th></tr>
<tr><td>Under 12 months</td><td>25%</td><td>0%</td></tr>
<tr><td>12 months and within 24 months</td><td>25%</td><td>0%</td></tr>
<tr><td>24 months and within 5 years</td><td>25%</td><td>0%</td></tr>
<tr><td>5 years and within 10 years</td><td>25%</td><td>0%</td></tr>
<tr><td>10 years and within 20 years</td><td>100%</td><td rowspan="5">40%</td></tr>
<tr><td>20 years and within 30 years</td><td>100%</td></tr>
<tr><td>30 years and within 40 years</td><td>100%</td></tr>
<tr><td>40 years and within 50 years</td><td>100%</td></tr>
<tr><td>50 years and above</td><td>100%</td></tr>
</table>

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

9.5 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£20m	£20m	£10m

10 Policy on Use of Financial Derivatives

10.1 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).

10.2 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, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

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

11 **Policy on Apportioning Interest to the HRA:** Reform of the Housing Revenue Account Subsidy system was completed at the end of 2011/12, when we were required to pay DCLG £147.8m. Prior to 2012/13 we were required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by DCLG. The Council has adopted a policy that it will continue to manage its debt as a single pool using the same regime that applied prior to self financing which will set out how interest charges attributable to the HRA will be determined, because self financing did not result in a material change to the average interest rate paid. However, it is intended to review this approach during the course of 2015/16.

11.2 The HRA also has a notional cash balance which may be positive or negative. This balance is measured each month and interest transferred between the General Fund and HRA at the net average rate earned by the Council on its portfolios of treasury investments and short-term borrowing.

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

11.4 **Investment Advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. We have at least two meetings per annum with Arlingclose, and make contact whenever advice is needed.

11.5 **Investment of Money Borrowed in Advance of Need**: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority 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 Authority's overall management of its treasury risks.

11.6 The total amount borrowed will not exceed the authorised borrowing limit of £400 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

12 Financial Implications

12.1 The estimate for investment income in 2015/16 is £100k, based on an average investment portfolio of at least £25 million at an interest rate of 0.4%. The budget for debt interest paid in 2015/16 is £11.3 million, based on an average debt portfolio of £307 million at an average interest rate of 3.7%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

13 Other Options Considered

13.1 The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance (as Chief Financial Officer), having consulted as necessary, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income may 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 will be more 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 will be less certain and there will be premature repayment costs that are likely to exceed any gain, at least in the short term

Annex A – Arlingclose Economic & Interest Rate Forecast December 2014

Underlying assumptions:

- The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP in 2015.
- We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.
- Inflationary pressure is currently low (annual CPI is currently 1.3%) and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth remains weak and below inflation, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.
- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.
- The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.
- The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.

Forecast:

- We continue to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.

- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.

- Market sentiment (derived from forward curves) has shifted significantly lower in the past two months; market expectations are now for a later increase in interest rates and a more muted increase in gilt yields.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Official Bank Rate													
Upside risk				0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75
Downside risk			0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month LIBID rate													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.60	0.75	0.90	1.05	1.20	1.35	1.50	1.60	1.70	1.80	1.90	2.00	2.10
Downside risk	0.15	0.20	0.30	0.40	0.55	0.65	0.75	0.85	-0.95	-0.95	-0.95	-0.95	-1.00
1-yr LIBID rate													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.20	1.35	1.50	1.65	1.80	1.95	2.10	2.20	2.30	2.40	2.50
Downside risk	-0.15	-0.20	-0.30	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80	-0.80	-0.80
5-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	1.45	1.60	1.75	1.90	2.00	2.15	2.25	2.35	2.45	2.50	2.55	2.60	2.60
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.70	-0.70	-0.70
10-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.75	2.80	2.85	2.90	2.95
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60
20-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.55	2.65	2.75	2.85	2.95	3.00	3.05	3.10	3.15	3.20	3.25	3.30	3.30
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.50	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60
50-yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55	0.55
Arlingclose Central Case	2.65	2.70	2.80	2.90	3.00	3.05	3.10	3.15	3.20	3.25	3.30	3.55	3.60
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60	-0.60

Annex B – Existing Investment & Debt Portfolio Position

	31/12/14 **Actual Portfolio** **£m**	31/12/14 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	**281.9**	**3.60**
PWLB – Variable Rate	**4.8**	**0.57**
LOBO Loans	**30.0**	**4.18**
Total External Borrowing	**316.7**	**3.60**
Other Long Term Liabilities:		
PFI	**33.8**	**n/a**
Finance Leases	**1.0**	**n/a**
Total Gross External Debt	**351.5**	**n/a**
Investments:		
Short-term investments	47.8	0.7
Total Investments	**47.8**	**0.7**
Net Debt	**303.7**	**n/a**

Annex C - Prudential Indicators 2015/16

1 Background

The council is required to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2 **Estimates of Capital Expenditure:** The Authority's planned capital expenditure and financing may be summarised as follows

Capital Expenditure and Financing	**2014/15 Revised £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
General Fund	59.96	65.51	33.03	13.38
HRA	9.53	13.89	10.87	9.89
Total Expenditure	69.49	79.40	43.90	23.27
Capital Receipts	16.68	13.92	7.87	6.89
Government Grants	32.54	18.09	6.09	5.39
S106	1.87	3.53	1.25	0.75
Borrowing	18.40	43.86	28.69	10.24
Total Financing	69.49	79.40	43.90	23.27

3 **Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31.03.15 Revised £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
General Fund	214.0	245.5	262.5	275.0
HRA	194.2	194.9	192.9	195.0
Total CFR	408.2	439.4	455.4	460.0

The CFR is forecast to rise by £50m over the next three years as capital expenditure financed by debt exceeds resources put aside for debt repayment.

4 **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council will ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.15 Revised £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
Borrowing	316.7	326.8	343.5	349
Finance leases	1.0	0.9	0.8	0.7
PFI liabilities	33.7	32.8	31.8	31.0
Total Debt	**351.4**	**360.5**	**376.1**	**380.7**

Total debt is expected to remain below the CFR during the forecast period

5 **Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	**2014/15 Revised £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
Borrowing	390	400	400	400
Other long-term liabilities	40	40	40	40
Total Debt	**430**	**440**	**440**	**440**

6 **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2014/15 Revised £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
Borrowing	400	410	410	410
Other long-term liabilities	40	40	40	40
Total Debt	**440**	**450**	**450**	**450**

7 Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2014/15 Approved %**	**2014/15 Revised %**	**2015/16 Estimate %**	**2016/17 Estimate %**	**2017/18 Estimate %**
General Fund	9.9	9.3	10.1	12.5	16.5
HRA	26.9	26.3	25.9	25.7	25.3

8 Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2014/15 Budget Estimate £**	**2014/15 Revised Estimate £**	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**
Increase in Band D Council Tax (in-year)	11.69	6.81	15.80	10.30	3.65
Increase in Band D Council Tax (on-going)	49.34	28.75	66.57	43.29	15.33
Increase in Average Weekly Housing Rents	0.63	0.35	0.49	0.32	0.32

Annex D – MRP Statement 2015/16

This statement has been revised – the main revision is to move to an "annuity based" MRP system for new capital from 2013/14. Over the life of assets all debt will be repaid, but the annuity method seeks to equalise total financing costs over the asset life with the consequence that generally less debt will be paid off in early years.

1. In 2008/09 and subsequent years identify the general fund adjusted CFR as at 31 March 2008 (excluding the amounts therein in relation to assets under construction) and then apply the 4% reducing balance method to the remaining portion of the CFR in subsequent years. {This continues the practice we had before 2008/09 for historic debt}

2. From 2009/10 where we were able to identify the use of "supported borrowing" we will also apply the CFR (reducing balance) method. {This reflected how supported borrowing was funded at that time in the grant system}

3. For new borrowing from 2008/09 to 2011/12, in respect of asset lives where assets were not funded by borrowing (including assets under construction as at 31 March 2008) we will use an asset life method. We set standard categories of asset life to streamline processes, and these included.

    - major new buildings on Council owned land where a 40-60 year asset life (unless the design life is demonstrably shorter) will be appropriate
    - freehold land – 60 years
    - leasehold land – the life of the lease
    - major extensions to existing buildings, or major remodelling of infrastructure – where a 20-40 year asset life may be more appropriate (according to the design life of the extension/remodelling)
    - major refurbishment of existing buildings – where a 20 year life can reasonably be presumed
    - major transport infrastructure or regeneration schemes (i.e. new roads or major remodelling of junctions) – 30 years (or according to the design life of the infrastructure/regeneration if materially different)
    - other transport capital expenditure – 15 years
    - small items capitalised revenue expenditure – 10 years
    - vehicles, where typically a 5 year life will be reasonable for smaller vehicles; in some cases (e.g. refuse freighters 7-8 years, in line with maintenance contracts) a longer life will be appropriate

    We will keep this categorisation under review

4. The asset life method will be used for assets under construction at 31 March 2008 when they are eventually completed unless we are able to identify that their funding was from "supported" borrowing, in which case the CFR method will be used

5. Where investments are made in financial instruments that score as capital expenditure where the Council expects full repayment, no MRP will be made

6. No new borrowing financed capital expenditure was incurred in 2012/13 and no new "supported" borrowing arose after that time. We changed the approach for borrowing financed assets after that time to an annuity method, using asset lives (largely as

above) and an assumed constant interest rate at the average rate of interest we incurred in the year the expenditure was incurred.

7. From 2013/14 the Council makes an MRP in the HRA of 2% of outstanding HRA debt plus unused “notional” major repairs allowance from the “self-financing” settlement.

8. In addition to MRP determined as above the Council makes MRP in respect of leased and PFI assets that are on balance sheet, which will be equal to the notional debt repayment implicit in the lease/PFI agreement due in each financial year.

Based on the Authority’s estimate of its Capital Financing Requirement on 31st March 2015, the estimate for MRP is as follows:

	31.03.2015 Adjusted CFR* £m	**2015/16 Estimated MRP £m**
Capital expenditure before 01.04.2007	68.425	2.737
Capital expenditure after 31.03.2007	101.193	6.066
Finance leases and Private Finance Initiative	33.400	0.300
Total General Fund	**203.02**	**9.103**
Housing Revenue Account	194.227	3.885
Total	**397.25**	**12.988**

*MRP is required to be made on the basis of the adjusted CFR; the adjustment reflected the position at the start of the Prudential System in 2003.The adjustment is a reduction.

READING BOROUGH COUNCIL

HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**29 JANUARY 2015**	**AGENDA ITEM:**	**5**
TITLE:	**STRATEGIC RISK REGISTER**		
LEAD COUNCILLOR:	**COUNCILLOR STEVENS**	**PORTFOLIO:**	**CHAIRMAN OF AUDIT & GOVERNANCE COMMITTEE**
SERVICE:	**FINANCE**	**WARDS:**	**N/A**
LEAD OFFICER:	**PAUL HARRINGTON**	**TEL:**	**9372695**
JOB TITLE:	**CHIEF AUDITOR**	**E-MAIL:**	Paul.Harrington@reading.gov.uk

1. EXECUTIVE SUMMARY

1.1 The primary purpose of this report is to update the Audit & Governance Committee on the Q3 status of the Council's 2014/15 Strategic Risk Register, in line with the requirements of the Council's risk management strategy.

1.2 The Council Management Team (CMT) maintains the Register on behalf of the Council, with the assistance of the Council's Chief Auditor.

1.3 The Register is reviewed on a quarterly basis and formally refreshed 6 monthly by CMT.

1.4 The Register is presented to the Council's Audit & Governance Committee a minimum of six monthly or quarterly in the case of any risks where the position has worsened or for residual red risks where the Audit & Governance Committee shows a particular interest. It was last presented to the Committee in September 14.

1.5 The following documents are appended:

Appendix 1 – the Council's Strategic Risk Register.

2. RECOMMENDED ACTION

2.1 The Audit & Governance Committee is requested to consider the Q3 status of the Council's 2014/15 Strategic Risk Register.

3. **BACKGROUND**

3.1 The revised Strategic Risk Register as at January 2015 (Q3) is reproduced at appendix 1. Arrows are used to indicate direction of change in any scores since the previous quarter.

3.2 The following key points should be noted to aid understanding:

↑↓ have been used to indicate movements in the net (residual) risk scores since the previous quarter, where a ➔ is shown no change has occurred.

A “mitigation” column has been added for each risk so as to provide a summary of the mitigating (controls) actions in place to minimise risk.

3.3 Members are reminded that although guidance is provided to officers in relation to the scoring of risks, with a view to providing as much consistency as possible, it still remains very much a subjective process. The primary aim of this report is to identify those key vulnerabilities that the officers consider need to be closely monitored in the forthcoming months and, in some instances, years ahead. In many cases this will be because the risk is relatively new and, whilst being effectively managed, the associated control framework is yet to be fully defined and embedded. In such circumstances it follows that not only will the potential impact be large, but the risk of likelihood of occurrence could also be increased. Furthermore, it is possible that the likelihood can be influenced by events outside of the Council’s control e.g. the economic climate and its impact on financial planning, or severe weather etc.

3.4 Directorate level risk registers generally only contain risks whose impact would not be felt wider than the directorate to which they belong should they materialise and are managed within the directorate.

3.5 The Strategic Register is compiled from risks identified at directorate level, which have been escalated along with high-level generic risks, which require strategic management. Entries within the Register reflect the risks identified by the Council Management Team thereby strengthening their strategic perspective, management response and controls.

3.6 The inclusion of risks within any level of risk register does not necessarily mean there is a problem. On the contrary, it reflects the fact that officers are aware of potential risks and have devised strategies for the implementation of mitigating controls.

3.7 Each entry within the register is scored to provide an assessment of the residual level of risk. All risks have been scored based on an assessment of their impact and likelihood. These assessments are made at two points, before any actions are in place (inherent risk) and after identified controls are in place (residual risk).

3.8 Whatever level of residual risk remains it is essential that the controls identified are appropriate, working effectively and kept under review.

3.9 Plans are in place to mitigate the risks identified in the Strategic Risk Register.

4.0 CONTRIBUTION TO STRATEGIC AIMS

4.1 Risk management underpins all aspects of the council strategic aims.

4.2 The risks within the risk registers are directly linked to the projects and work streams that are in place to deliver the strategic aims.

4.3 Budget risks directly influence all strategic aims.

5.0 COMMUNITY ENGAGEMENT AND INFORMATION

5.1 Risk management is an internal management process that is open to scrutiny from councilors and the public at the councils Audit and Governance Committee meetings.

6.0 LEGAL IMPLICATIONS

6.1 Local Government Acts 1999 and 2000 established a requirement of performance improvement in modernised local government. Risk management is an important element in ensuring that service delivery objectives are achieved.

7.0 FINANCIAL IMPLICATIONS

7.1 There are none associated with the recommendations in this report. The work recommended will be met from existing budgets.

8.0 BACKGROUND PAPERS

8.1 Council's Risk Management Strategy.

8.2 Delivering Good Governance in Local Government – Framework, CIPFA/ Solace 2012.

8.3 The Accounts and Audit Regulations 2011

STRATEGIC RISK REGISTER – Q3 2014/2015

Reading Borough Council
Working better with you

The strategic risks are managed by the Corporate Management Team with directorate support. Strategic risks are those that can be described as presenting a:

- Significant Council wide risk
- Significant risk specific to one directorate which could impact upon the Council as a whole
- Significant risk to the Council as part of working with external organisations or its role within the community

Risk ref no	STRATEGIC RISKS	Inherent risk *Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively – the worst case scenario if the risk were to occur*			Mitigation	Residual risk *Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.*				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
1	Budget risk: Unable to deliver services within the resources available to the Council to meet obligations and service standards, including keeping the current year's budget within the approved budget framework	5	4	20	▪ Continuous development of a budget strategy and budget options to reduce spending by approximately £25m over the next 3 years ▪ Reshaping the Council to ensure that future needs are met and opportunities taken whilst being realistic about what we can and can't do moving forward. (Reshape has delivered savings of £2m over the last 12 months) ▪ Monthly budget monitoring within services and directorates ultimately reports to Policy Committee and Audit & Governance Committee ▪ Directorates are required by the budget framework to bring forward mitigating measures where practical to address adverse budget variances	4	4	16	→	**IW/AC**
2	Customers service model does not deliver expected benefits to customers and efficiency savings (including the level of cultural and behavioural change needed to achieve channel shift)	4	3	12	▪ Programme of work established to redesign business processes, implement new organisational structure and make best use of technology to deliver service improvement. ▪ Digital strategy agreed as framework for action to deliver channel shift whilst ensuring digital inclusion ▪ The Digital strategy incorporates web replacement, and successful full delivery requires engagement across all Council services and putting in place arrangements to migrate customers channel use to different options	3	3	9	→	**ZH**
3	Commissioning plans(framework) become disjointed and have conflicting priorities; leading to poor VFM and adverse impact on outcomes.	4	4	16	▪ Develop commissioning strategy across areas of major budget spend ▪ Monitor staff capacity ▪ Establish a corporate governance framework ▪ Develop register of major contract/tender procurement dates ▪ To report progress/issues to CMT and Policy Committee	3	2	6	→	**AW**

isk ref no	STRATEGIC RISKS	Inherent risk *Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively – the worst case scenario if the risk were to occur*			Mitigating Actions	Residual risk *Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.*				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
4	ICT security – risk of loss of data by not preventing and minimising the impact of ICT security incidents, resulting in significant financial penalties levied by the Information Commissioners Office.	5	4	20	▪ Corporate ICT Security Policy implemented with clear audit trail ▪ Information Governance procedures ▪ Data Protection policy ▪ Document retention policy ▪ Information risk Management Work ▪ BeCrypt Implementation ▪ Encrypted USB Stick Introduction ▪ Increased Secure Email roll-out ▪ Introduction of Protective Document Marking ▪ Policy Revision ▪ Security Briefings ▪ Staff Security Booklet Issue	3	4	12	➔	CB
5a	Failure to maintain the fabric and services of buildings resulting in injury to individuals and/or non-compliance with relevant legislation or unavailability of asset.	5	5	25	▪ The comprehensive review of assets has included a rolling program of condition surveys that has informed a prioritised program of works ▪ Asbestos - Management schemes for corporate buildings ▪ Legionella - Management schemes in place for each building. Full review being undertaken of management arrangements to ensure compliance with ACOP. ▪ a range of Business Continuity plans are in place to enable continuation of services from different buildings ▪ Installation & Maintenance of UPS units and generators. ▪ Fire risk assessments ▪ Commissioning detailed condition surveys. Further detailed analysis to be undertaken to prioritise condition works and procure. Possible budget / resource implications depending on urgency of works. ▪ Moving to Plaza West during the year will reduce risk in this area ▪ Progressing Corporate Property review and outstanding works will also reduce this risk ▪ Completed first phase of priority works at central pool	4	4	16	➔	AB

Risk ref no	STRATEGIC RISKS	Inherent risk *Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively - the worst case scenario if the risk were to occur*			Mitigating Actions	Residual risk *Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.*				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
5b	Failure to maintain the fabric of the structure, communal areas and services related to council's housing stock resulting in injury to individuals and or noncompliance with Legislation	5	5	25	▪ Asset Management plan covering next 5 years in detail and funding requirements for 30 years. ▪ 7 yearly external Planned Maintenance cycle to both individual tenanted / leasehold properties and communal area. ▪ 7 yearly communal decs program ▪ Rolling stock survey revisiting all properties every 5 years ▪ Fire risk assessments undertaken by both surveyors and neighbourhood officers alternate years ▪ Compliance with Annual Gas Service ▪ NICEIC registered and reviewed ▪ Suitable training programme for trade and professional staff covering all key areas. ▪ Ongoing review of Asbestos Database and management process ▪ Ongoing review of Legionella and programme of works to remove risks ▪ Periodic review by external consultants on operating procedures and processes, APSE, HQN, H&S. Recruitment of Asbestos officer	4	2	8	➔	AW
6a	CHILDREN- Risk of death or injury to children, through inappropriate care or attention.	5	3	15	▪ Monitoring of practice at all levels, escalation process in place ▪ Monitor staff capacity ▪ Regular external audit and challenge ▪ Regular internal themed audits ▪ Deliver OFSTED action plan	5	2	10	➔	AW
6b	ADULTS - Risk of death or injury to young people or adults through inappropriate care or attention.	5	3	15	▪ Monitoring of practice at all levels, escalation process in place ▪ Monitor staff capacity ▪ Regular external audit and challenge Review governance mechanisms of quality group on commissioned services	5	2	10	➔	AW
7	Failure to manage unexpected growth which leads to increased demand upon services- In particular looked after children.	4	4	16	▪ Analysing and refreshing forecasts to maintain level of understanding ▪ Develop capacity/demand modelling in children's services ▪ Regular financial and service monitoring	3	2	6	➔	AW

Risk ref no	STRATEGIC RISKS	Inherent risk *Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively – the worst case scenario if the risk were to occur*			Mitigating Actions	Residual risk *Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.*				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
~~8~~	DELETED SEPT 14 ~~Targeting of resources to meet Public Health priorities~~	4	~~3~~	~~12~~	▪ ~~Berkshire-wide Transition Board/finance and contracts sub group advising on key contract issues with representation from Reading~~ ▪ ~~Workshop took place to review the published 2013-16 Health and Wellbeing Strategy, action/delivery reviewed and outcomes will be fed through the HWB Board to ensure agreed targeting of resource.~~ ▪ ~~Regularly review press coverage and ensure that the PH communication strategy is fit for purpose~~ ▪ ~~The Council's use of Public Health Grant may be subject to external scrutiny and arrangements are being put in place to ensure all usage meets the grant criteria~~	~~3~~	~~3~~	~~9~~	→	~~IW~~
9	Failure to manage demand for school places via availability & funding for additional requirements	5	4	20	• ACE and Policy Committee agreement to support national government funding with local finance. Programme underway to deliver 2500 more permanent school places • The Council's £64m School expansion programme is now well under way, although high construction costs and shortages of skills and materials have placing considerable pressure on the programme. The Council has had no option but to work with schools to reduce the scope of the programme in order to stay within budget.	3	3	9	→	AW
~~10~~	DELETED JAN 2015 ~~Failure to implement new ways of working (linked risk in resources register)~~	4	~~3~~	~~12~~	▪ ~~There is a cross party Civic Board overseeing this project to which detailed reports are made~~ ▪ ~~A communication strategy is being developed~~ ▪ ~~There are two reserves to help manage the phase in of the change in capital costs over time and the dual running costs.~~ ▪ ~~Directorate Move Champions have been identified and are actively engaged in working on the planned move to the new building including the adoption of the flexible work style model and reducing paper storage in advance of the move.~~	~~3~~	~~2~~	~~6~~	→	~~IW~~
11	Budget cuts will significantly increase risk that young people disappear off the radar which in turn may impact on crime and other statistics.	4	5	20	▪ Work with schools/colleges on accurately identifying numbers and profile of young people concerned ▪ Develop 14-19 inclusion strategy ▪ Work with partners to develop range of training/employment opportunities ▪ City Deal should help mitigate the risk	3	3	9	→	AW

Risk ref no	STRATEGIC RISKS	Inherent risk *Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively – the worst case scenario if the risk were to occur*			Mitigating Actions	Residual risk *Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.*				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
12	Failure to close the gap in school attainment	4	5	20	▪ Refresh 'narrowing the gap strategy' ▪ Monitoring of attainment levels of BME pupils and pupils in receipt of free school meals ▪ Challenge permanent exclusions from underachieving groups ▪ Develop and share good practice at school/cluster level ▪ Work on strategic relationship with schools to ensure that these vulnerable pupils are recognised as a priority Monitor use of pupil premium	3	4	12	→	AW
~~13~~	DELETED JULY 14 ~~Lack of understanding of Disaster Recovery contingencies by service managers causes Business Continuity plans to fail~~	~~3~~	~~3~~	~~9~~	~~Prioritise work on disaster recovery and business continuity planning for key service areas and provide support and training for managers~~	~~2~~	~~3~~	~~6~~	~~No Q2 score~~	~~ZH~~
14	Ensuring that staff comply with corporate policies and procedures and that they are appropriate to support people in their day-to-day work	4	4	16	▪ Review of all policies and procedures now completed ▪ Proposals to streamline policies and procedures to be brought forward ▪ New corporate approach to be introduced ▪ New training to be introduced	3	4	12	→	IW
15	Failure of providers around children and adult safeguarding - Closure, poor performance, change of ownership or bankruptcy of private or third sector providers necessitates mitigating action by Adult Social Care and other services/partners to ensure ongoing service provision for all service users	4	5	20	▪ Review contingency plans at local and sub-regional level ▪ Ensure sufficient capacity available to develop and monitor 'improvement plans' by provider ▪ Liaison with CQC and MONITOR on understanding/knowledge of quality issues at local level ▪ Develop market position statement	4	3	12	→	AW

Risk ref no	STRATEGIC RISKS	Inherent risk *Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively – the worst case scenario if the risk were to occur*			Mitigating Actions	Residual risk *Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.*				
		Impact	**L'hood**	**Score**		**Impact**	**L'hood**	**Score**	**DoT**	**Action Owner**
16	Reshaping has an adverse impact on service delivery and capacity within the Council	4	4	16	▪ Any proposals from the Reshaping that could result in policy changes will result in options being presented to the respective committee. ▪ Each proposed change will be subject to a 'Service Review' process which will consider, challenge and moderate proposals and be clear about impacts on services, citizens and staff. These Reviews will be considered by the respective DMT's and CMT. ▪ Consultation will be held for each Service Review to ensure that the proposals are robust so that and staff and Trade Unions can provide suggestions. ▪ Each proposed change as part of the Service Review will complete an Equality Impact Assessment to be clear on potential impacts, what can be mitigated and also be clear about what cannot be mitigated. ▪ Delivery of the proposed Reshape proposals are monitored via highlight reports to monthly CMT performance meetings to outline progress against the timetable, any key issues that need to be addressed and next steps. ▪ A training needs analysis has begun to assess any potential skills shortages, single points of reliance and also staff that could be deployed in other areas of the organisation if required. ▪ The training needs analysis will inform a new Leaning & Development Menu and Workforce Development Plan to ensure that training and support is available to all staff but also particularly staff whose roles have changed or are going to change to minimise potential risks. ▪ Business continuity arrangements will continue to be updated that will take account of any proposals about the council's structure.	3	3	9	→	**IW**
17	Changes in the way children with special needs (SEN) are identified and catered for will see parents given new rights to buy help for children and fewer children labelled as having SEN in the biggest change to the system for 30 years.	5	3	15	▪ Develop further the Special Educational Needs (SEN) Strategy to enable special schools to meet the needs of children and young people with higher levels of need. ▪ Establish better controls on spend through Schools Forum and review the supporting services to enable more pupils to stay in their local provision ▪ Complete external review of existing system ▪ Develop accurate benchmark information with 'good' authorities ▪ Ensure that the voice of the child and parents are captured and used in design of new system	3	3	9	↑	**AW**
18	Impact of the Care Act on adult social care services including increased numbers of assessments, additional duties to carers, deferred payment system and risk of the new system being underfunded by Government	5	3	15	▪ Establish governance through programme Board ▪ Establish clear work-streams and programme leads ▪ Regular reporting to CMT on progress ▪ Complete financial modelling work ▪ Ensure health partners are aware of the challenges that the Care Act poses and the impact on their services ▪ Regular reporting of Care Bill work stream to CMT & ACE	4	2	8	→	**AW**

Risk ref no	STRATEGIC RISKS	Inherent risk *Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively – the worst case scenario if the risk were to occur*			Mitigating Actions	Residual risk *Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.*				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
19	Impact on staff resilience (stress and motivation) of Reshaping and change generally.	4	5	20	▪ Issue guidance to staff on how workload and other concerns can be directed; ▪ Messages from leadership to staff giving key messages of empathy and support – cultivate a culture of openness and upward challenge; ▪ Work with unions and other stakeholders to identify key themes, concerns and where they are located; ▪ 'Take the Temperature' through staff surveys and focus groups ▪ Ensure that managers are carrying out 1:1's, appraisal and team meetings at a local level; ▪ Ensure that managers know how to measure stress and carry out surveys of staff; Senior managers to model behaviours and to drive forward an operational culture of involvement and participation in change programmes.	3	4	12	↑	**CB**
20	The Better Care Fund places further demands on the health and social care economy, including the Council's savings plans and overall integration agenda	4	4	16	▪ Work with health partners to deliver targets established in the plan ▪ Risk sharing agreement with the Berkshire West LAs and the CCG to ensure the BCF funding is released to support the delivery of the projects and to ensure Adult Social Care is supported by the BCF funding ▪ Encourage neighbouring local authorities to develop shared principles around the integration agenda ▪ Maintain sufficient capacity within the Council to deliver system change	3	3	9	↑	**AW**
21	Increasing number of people becoming homeless and placing additional pressure on the Council to provide temporary accommodation.	4	5	20	▪ The 14-15 budget included an additional budget allowance of £88k. ▪ Temporary accommodation: One building has been refurbished and brought back into use and is fully occupied (14 family units); works on another are not expected to be completed until early next year, so will not have much impact on numbers needing B&B this financial year. ▪ Proactive housing advice service seeks to prevent homelessness through negotiation and intervention at individual case level ▪ However, in spite of mitigations, based on current projections the level of demand presenting is likely to exceed the increased budget, due to the number of placements and the increasing cost of rooms being charged by providers. ▪ A strategy to try to mitigate impact and source cost effective solutions to meet the demand for emergency accommodation and ease pressure on the B&B budget is being developed and implemented, including piloting a more commercial offer to landlords through the Council's well regarded Deposit Guarantee Scheme following extensive landlord consultation and an independent review. The aim is to increase the numbers of quality-assured private rented sector homes available to households who are homeless and at risk of homelessness. The Council is also working with DCLG sector experts to identify best practice in other authorities.	3	4	12	↑	**AB**

Risk ref no	STRATEGIC RISKS	Inherent risk *Risks are assessed on the basis that there are no controls in place, or on the basis that any existing controls are not operating effectively – the worst case scenario if the risk were to occur*			Mitigating Actions	Residual risk *Controls in place should already be helping to minimise the likelihood or impact of the identified risks. Therefore, the identified risks are then re-assessed in light of the existing and proposed controls.*				
		Impact	L'hood	Score		Impact	L'hood	Score	DoT	Action Owner
22	Failure to manage the growth in landfill waste tonnage, and the resultant increased pressure on the Council's budget.	4	3	12	▪ Draft Waste Minimisation Strategy prepared ▪ Consultation programmed for January/February 2015 ▪ Report back to HNL Committee in March 2015 with a view to adopt. ▪ Neighbourhood Reshape incorporated specific posts to help implement the Waste Minimisation Strategy.	2	3	6	**NEW**	**MS**

READING BOROUGH COUNCIL

REPORT BY HEAD OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**29 JANUARY 2015**	**AGENDA ITEM:**	**6**
TITLE:	**BUDGET MONITORING 2014/15**		
LEAD COUNCILLOR:	**COUNCILLORS LOVELOCK/ PAGE**	**PORTFOLIO:**	**FINANCE**
SERVICE:	**FINANCE**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**ALAN CROSS**	**TEL:**	**01189372058 (x72058)**
JOB TITLE:	**HEAD OF FINANCE**	**E-MAIL:**	**Alan.Cross@reading.gov.uk**

1. EXECUTIVE SUMMARY

1.1 This report sets out the result of the budget monitoring exercise undertaken for 2014/15, based on the position to the end of November 2014.

2. RECOMMENDED ACTION

2.1 Policy Committee is asked to note the budget position for 2014/15 set out in the report.

3. BUDGET MONITORING

3.1 The results of the Directorate budget monitoring exercises are set out in Appendices 1(A-C). A summary of the results of the exercise is as follows:

	Emerging Variances £000	Remedial Action £000	Net Variation £000	% Variation to Budget
Environment & Neighbourhood Services	2,099	1,073	1,026	3.4
Education, Adult & Children's Services	861	861	0	0
Corporate Support Services	-426	0	-426	-3.4
Directorate Sub total	**2,534**	**1,934**	**600**	**0.5**
Treasury	-305		-305	
Total	**2,229**	**1,934**	**295**	**0.0**

3.2 This report follows the pattern of recent reports with the main focus being on the estimated budget variance at year end. The summaries are included as follows:

Education, Adult and Children's Services	-	Appendix 1A
Environment & Neighbourhood Services	-	Appendix 1B
Corporate Support Services	-	Appendix 1C

3.3 **Education Adult & Children's Services**

There are pressures within Children's Services of £407k which flow from a small number of residential placements, homeless families, use of agency staff and investment across a range of areas to improve the service. Within Adult Services there are significant demand pressures across a range of services amounting to £454k, although this is subject to the usual caveats given the demand led nature of the service. There are offsetting savings within Education and Commissioning & Improvement amounting to £270k. The Directorate will manage the overall net pressure of £591k by utilising the strategic reserve. As the pressure can be contained within the reserve no net variance has been shown for the Directorate as a whole.

3.4 **Environment & Neighbourhood Services**

The Directorate is currently forecasting a potential net overspend of £1,026k at year end which is a net improvement of £238k from last month. Whilst there continue to be underlying budget pressures on income, waste charges and homelessness there have been improvements in a number of areas most notably contract savings in Transport and additional income in Highways.

3.5 **Corporate Support Services**

There has been some further improvement by £57k to the overall predicted underspend for the Directorate to £426k, though there are a range of changes in this forecast. In particular we now expect reduced HB grant income, though it has been possible to offset this from savings within Customer Services, where the overall forecast has improved and the central pension contribution. A small likely saving in Finance has been confirmed following the transfer of HB investigations to the DWP, but recent trends in Land Charge demand has led to a reduction in the forecast additional income.

4. FORECAST GENERAL FUND BALANCE

4.1 The final General Fund Balance at the end of 2013/14 was £5.5m. As indicated in the table above, assuming remedial action highlighted in the Directorate commentaries is carried out, there is now expected to be an overspend on service revenue budgets of £600k. Cost pressures in Environment & Neighbourhood Services Directorate are partly offset by Corporate Support Services. Education Adult & Children's Services are forecast to come within budget overall, making use of the Strategic Reserve to do so.

4.2 The pressure on service directorate budgets is partly offset by a favourable treasury position, which taken with the planned use of balances in 2014/15 should mean we end the financial year very marginally above the £5m minimum. Last month we reported that around £300k of the Prudential Reserve would need to be used in order to end the year with a General Fund Balance of at least £5m, as required by the Budget Framework. On the basis of this latest monitoring this transfer will not now be needed, but there remain some risks in delivering the budget, and any further adverse variance will lead to a requirement to reinstate this transfer. The approved budget for 2014/15 anticipated that we may need to use up to £675k of this reserve. The Corporate Management Team will ensure all reasonable actions are taken to avoid the need to draw on this reserve.

5. CAPITAL PROGRAMME 2014/15

5.1 The current forecast level of capital expenditure for the year is £69.4m, of which £60.9m relates to General Fund services and £8.5m to the HRA.

5.2 The table shows the expenditure by priority area and its current estimated funding.

CAPITAL PROGRAMME	**£m**
Creating and Sharing Prosperity	13.714
People are Supported and Protected when they need to be and/or are Healthy and can Thrive in their Community	1.062
An Attractive well-kept Town	33.494
Good Quality Public Services	21.125
Total	**69.395**

FORECAST FUNDING	**£m**
Grants	32.446
Receipts (inc. S106 and HRA Major Repairs Reserve)	19.546
Borrowing	17.403
Total Funding	**69.395**

5.3 As at 30 November 2014, £24.9m had been expended on General Fund services.

5.4 Expenditure on Transport schemes: Reading Station, LSTF, Pinch Point and Bridges and Carriageways is forecast at £23m. Much of this expenditure is skewed towards the end of the financial year with work at Reading Bridge and the new Pedestrian and Cycle Bridge, as well as the new Park and Ride sites now committed and underway.

5.5 Expenditure on the Reading Schools Programme (£13.5m in 2014/15) has now begun to ramp up, though a range of discussions are taking place with schools to ensure the overall schemes remain within budget.

5.6 The move to Plaza West has been completed on time & remains within budget, against a total allocation of £14.5m for the year (including energy saving measures).

5.7 Spend on ICT and works to council buildings has been re-profiled at £3m for the year, a significant element of the reduction due to the concerted attention given to a smooth and successful move to Plaza West.

5.8 The procurement of the new refuse fleet is expected to be complete by year end, thus exhausting the bulk of the remaining programmed spend on replacement vehicles for the current year.

6. TREASURY MANAGEMENT

6.1 No new long term borrowing has been arranged or is immediately planned in 2014/15. Between 1 April 2014 and the 31 December 2014, the net borrowing of the Council varied between £243m & £282m averaging £260m. The treasury management budget position is discussed above.

7. HRA

7.1 The HRA position is covered by the separate report on your agenda.

8. RISK ASSESSMENT

8.1 There are risks associated with delivering the Council's budget and this was subject to an overall budget risk assessment which was set out in the February report. At the current time those risks have not significantly changed given that we currently expect to end the financial year with the minimum general fund balance, as planned. From the detailed service monitoring, key service risks that are leading to adverse budget pressures, or remaining risks causing further budget pressure in the current year include:

- Demand for adult social care;
- Demand for children's social care;
- Homelessness, and the likely need for additional bed & breakfast accommodation;
- The level of income from traffic enforcement, as motorists appear to be better respecting the traffic regulations;
- Growth in waste disposal tonnage, arising from economic recovery;
- Income risks in the leisure and theatre services;
- Increasing service demands being met by a reducing workforce not being matched by appropriate process changes;
- Not complying fully with grant conditions for capital projects by spending the required money during the current financial year.

9. BUDGET SAVINGS RAG STATUS

The RAG status of savings and income generation proposals included in the 2014/15 budget has been subject to a refreshed reviewed. £10m of these savings were agreed in February 2014, and the remainder in February 2013. The RAG status in terms of progress is summarised below:

	£000	%
Red	1,060	9
Amber	3,342	28
Green	7,558	63
Total	**11,960**	**100**

The RAG status of budget savings supplements the analysis in budget monitoring above, and the red risks do not represent additional pressures to those shown above. The above table reflects a slight overall improvement, with a further 2% of savings fully realised (green) although an additional £50k has been identified as unrealisable (red).

10. COUNCIL TAX & BUSINESS RATE INCOME

10.1 We have set targets for tax collection, and the end of November position is:

Council Tax	2014/15 £000	Previous Year's Arrears £000	Total £000
Target	57,989	1,037	59,026
Actual	57,830	1,052	58,882
Variance	**159 below**	**15 above**	**144 below**

10.2 For 2014/15 as a whole the minimum target for Council Tax is 96.5%, (2013/14 collection rate 97.13%). At the end of November, collection for the year was 74.09% compared to a target of 74.8%, and collection is slightly behind 2013/14 (74.74% by end of November 2013).

10.3 **Business Rates Income to the end of November 2014**

Business Rates	2014/15 £000	2014/15 %
Target	78,848	72.00
Actual	77,016	70.97
Variance	**1,832 below**	**1.03% below**

The target for 2014/15 is 98.50%. The pattern of business rates payments has been changing following regulatory changes, and the target profile has been adjusted to reflect the new arrangements. At the end of November 2013, 73.26% of rates had been collected, but there are some limitations to that as a comparative figure.

11. OUTSTANDING GENERAL DEBTS

11.1 The Council's outstanding debt total as at 30 November 2014 stands at £3,730k in comparison to the 31st March figure of £3,510k. This shows an increase of £220k.

11.2 We had anticipated that the debt position would improve, and the recent approval of the Corporate Debt Policy is an important step forward. We are currently slightly increasing the resource following up outstanding debt, as well as improving payment methods (so more income is collected up front or moved to direct debit collection, so it should be more automatically collected) in the expectation this will help tackle the adverse trend. It should be noted that well over a third of the debt, and most of the largest outstanding debts are money due from other public sector organisations or the authority's schools.

12. CONTRIBUTION TO STRATEGIC AIMS

12.1 The delivery of the Council's actual within budget overall is essential to ensure the Council meets its strategic aims.

13. COMMUNITY ENGAGEMENT AND INFORMATION

13.1 None arising directly from this report.

14. LEGAL IMPLICATIONS

14.1 The Local Government Act 2003 places a duty on the Council's Section 151 Officer to advise on the robustness of the proposed budget and the adequacy of balances and reserves.

14.2 With regard to Budget Monitoring, the Act requires that the Authority must review its Budget "from time to time during the year", and also to take any action it deems necessary to deal with the situation arising from monitoring. Currently Budget Monitoring reports are submitted to Policy Committee regularly throughout the year and therefore we comply with this requirement.

15. FINANCIAL IMPLICATIONS

15.1 The main financial implications are included in the report.

16. EQUALITY IMPACT ASSESSMENT

16.1 None arising directly from the report. An Equality Impact Assessments was undertaken and published for the 2014/15 budget as a whole, and such assessments are undertaken in respect of individual service proposals as appropriate.

17. BACKGROUND PAPERS

17.1 Budget Working & monitoring papers, save confidential/protected items.

DEACS Summary
Budget Monitoring Overview for the Period: November 2014

This overview provides the key results of the budget monitoring exercise undertaken during November 2014

Approved Budget

The Approved budget for the directorate is £77m, made up as follows:

	Annual Budget	Budget to date	Spend to date	Variance	Projected Year End Variance
	£'000	£'000	£'000	£'000	£'000
Employee Costs	87,867	59,283	51,175	-8,108	0
Running Costs	97,308	65,920	54,259	-11,661	0
Gross Expenditure	185,175	125,203	105,434	-19,769	0
Income	-108,151	-70,786	-62,583	8,203	0
Net Expenditure	77,024	54,417	42,851	-11,566	0

Summary Projection of Year end Position

The results of the budget monitoring exercise indicate a potential net overspend of	**0**
	0.0%

Directorate Commentary on Budget Monitoring for the Period

In summary, Children's Services pressures have increased by £50k to £407k given an increase in placements. Within Education services the forecast is at present unchanged from last month, namely a £85k underspend reflecting a saving on Early Years projects in advance of a reshape next financial year. The £1.3m pressure on the high needs block do not impact upon the LA budget as this is DSG funded. The year end forecasts for School Improvement and Home to School Transport are currently being reviewed and will be updated next month. For Commissioning and Improvement a £185k underspend has been shown as cross Council savings on Training and Procurement are allocated across the Council. Adult Services pressures have increased from £304k last month to £454k this month due to increase demand pressures in Older People, Learning disability and Physical disability services. There are further pressures in the system especially around demand for older people and Learning Disability services although the overall overspend is not expected at this stage to increase.

To support unexpected increases in client demand across Adult and Children Social Care, the Directorate has a strategic reserve budget. The aim is to use the reserve on a non re-current basis to meet pressures across the Directorate. However this requires work to be done on an ongoing basis to identify in year, long term sustainable savings to contain these pressures in a way that will not compromise developing budget plans for 2015/16 and subsequent years. At the current time the overall pressure on the service is mainly across Adult & Children's Services and it is likely at this stage that £0.6m **(£0.5m last month)** of the reserve will be required, noting the above comments on the expected year position on adult services. However this is subject to the usual caveats on the demand nature within the services and the possible developing pressures.

Significant Budget Variations - Service & Explanation of Year End Position (>£100k)	Overspend £000	Underspend £000
Children's Service	407	
Adult Services	454	
Education & Early Years		-85
Commissioning & Improvement		-185
Funded by DEACS strategic reserve		-591
Total	**861**	**-861**
Forecast Net Position (over/-underspend)		**0**

DENS - Environment and Neighbourhood Services	APPENDIX 1B
Budget Monitoring Overview for the Period: November 2014	

This overview provides the key results of the budget monitoring exercise undertaken during November 2014

Approved Budget

The approved budget for the directorate as shown is £30.1m, made up as follows:

	Annual Budget	Budget to date	Spend to date	Variance	Projection to Year End
	£'000	£'000	£'000	£'000	£'000
Employee Costs	32,045	21,217	20,141	-1,076	-628
Running Costs	84,543	37,687	36,263	-1,424	592
Gross Expenditure	116,587	58,904	56,404	-2,501	-36
Income	-86,486	-51,833	-48,517	3,316	1,062
Net Expenditure	30,102	7,071	7,887	815	1,026

Summary Projection of Year end Position

The results of the budget monitoring exercise indicate a potential net **overspend** of	**£1026k**
	3.4%

Directorate Commentary on Budget Monitoring for the Period

The Directorate is currently forecasting a potential net overspend of £1,026k at year end. The significant and sharp increase in homelessness numbers means that bed and breakfast costs are now predicted to result in a net budget pressure of £369k. Remaining pressures arise from increased waste disposal tonnage, declining number of traffic regulation infringements (notably bus lanes), a reduction in income from investment portfolio and unachievable savings proposals in relation to reduced accommodation and printing costs. There is a one-off saving on public transport contracts and Concessionary Fares due to revised opening date for the Mereoak Park and Ride site.

Ongoing pressures on income, particularly for RSL where competition from budget gyms continues to impact on memberships. A new competitively priced membership structure for the leisure sites has been introduced offering a great deal for local residents and early signs are that this is being well received. This will not in the short-term though compensate for the whole shortfall and a net overspend of approximately £135k across culture and leisure services is currently forecast.

Action is being investigated in order to mitigate all pressures and overspends where possible.

Significant Budget Variations - Service & Explanation of Year End Position (>£100k)	Overspend £000	Underspend £000
Waste Disposal - additional costs due to increased tonnage.	120	
Declining number of traffic regulation infringements (notably bus lanes)	700	
Recharge salaries to grant (Transport)		200
Additional income generation and Transport fees, and public transport contract savings (all		270
Unachievable savings proposals in connection with lease for Fountain House and printing.	180	
Bed & Breakfast net cost pressures	690	321
Reduced income from investment portfolio	113	
Leisure services income shortfalls	135	
Other minor variances	161	282
Total	**2,099**	**1,073**
Forecast Net Position (over/-underspend)		**1,026**

CSS - Corporate Support Services	APPENDIX 1C

Budget Monitoring Overview for the Period: November 2014

This overview provides the key results of the budget monitoring exercise undertaken during November 2014

Approved Budget

The Approved budget for the directorate is £11.9m, made up as follows:

	Annual Budget	Budget to date	Spend to date	Variance	Projection to Year End
	£'000	£'000	£'000	£'000	£'000
Employee Costs	15,445	10,296	10,295	-1	0
Running Costs	19,364	12,738	8,726	-4,012	-194
Gross Expenditure	34,809	23,034	19,021	-4,013	-194
Income	-22,130	-11,097	-2,013	9,083	-140
Net Expenditure	12,679	11,938	17,008	5,070	-334

Summary Projection of Year end Position

The results of the budget monitoring exercise indicate a potential net **underspend** of	**£-426k**
	-3.4%

Directorate Commentary on Budget Monitoring for the Period

Earlier in the year Customer Services were reporting a range of budget variances; including unrealised savings in ICT, as well as the e-billing and Interpretation Income. However, corrective action has now been undertaken in ICT, which is expected to be within budget. However, in the course of the last month an income pressure in connection with lost HB grant has emerged. However, this pressure, and other smaller pressures are offset by a range of underspends across the service on the early realisation of salary savings following the move to 9-5 call hours (which has been successfully implemented) and an in year saving in our central pension deficit contribution.Overall Customer Services is now forecast to be £236k underspent which is a £72k improvement from last month.

Following the transfer of HB Fraud Investigation to the DWP from 1 December we expect a small saving in salary costs. Across the rest of the service taking account of a range of issues no net variance is currently anticipated

Childcare Lawyers - the caseload has recently been at its lowest level ever, and although it is now rising; at current forecast levels we would expect to achieve the agreed budget reductions in Reading's share of costs which was originally planned to be phased in over 2 years - so would have a £145k underspend in 2013/14.

Land charges is now expected to deliver at £25k income better than budget; this is slightly worse than was previously forecast, reflecting recent trends in demand for the service

Significant Budget Variations - Service & Explanation of Year End Position (>£100k)	Overspend £000	Underspend £000
Customer Services	151	387
Finance (Investigations Team Saving)		20
Childcare Lawyers - Reading Share of Costs		145
Land charges additional income		25
Total	**151**	**577**
Forecast Net Position (over/-underspend)		**-426**