Public Document Pack

Governance Committee

Monday, 13th February, 2023
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 3

This meeting is open to the public

Members of the Committee

Councillor Shields (Chair)
Councillor Denness
Councillor Furnell (Vice-Chair)
Councillor D Galton
Councillor White

Contacts

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PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.
[02 Part 2 - Articles]
It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton: Corporate Plan 2022-2030 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

Smoking policy – The Council operates a no-smoking policy in all civic buildings.
Mobile Telephones:- Please switch your mobile telephones or other IT devices to silent whilst in the meeting
Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting.
By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.
Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.
Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Dates of Meetings: Municipal Year 2022/2023

2022	2023
13 June	13 February
25 July	24 April
26 September	
14 November	
12 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

03 - Part 3 - Responsibility for Functions

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 2.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, ***both*** the existence ***and*** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

(i) Any employment, office, trade, profession or vocation carried on for profit or gain.

(ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING) (Pages 1 - 4)

To approve and sign as a correct record the Minutes of the meeting held on 14th November, 2022 and to deal with any matters arising, attached.

5 INTERNAL AUDIT PROGRESS REPORT (Pages 5 - 24)

Report of Chief Internal Auditor detailing the Audit Progress Report 2022-23.

6 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2023/24 TO 2026/27 (Pages 25 - 70)

Report of the Executive Director for Finance, Commercialisation & S151 officer seeking approval of the Council's Treasury Management Strategy and Prudential Limits 2023/24 to 2026/27.

7 EXCLUSION OF THE PRESS AND PUBLIC - EXEMPT PAPERS INCLUDED IN THE FOLLOWING ITEM

To move that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of any consideration of the exempt appendix to the following Item.

Appendix 2 'Summary - Strategic Risks' is not for publication by virtue of category 5 paragraph 10.4 of the Access to Information Procedure Rules as set out in Council's Constitution. The information is exempt from publication as it includes information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

8 **ANNUAL RISK MANAGEMENT REPORT 2022** (Pages 71 - 82)

Report of Executive Director for Finance and Commercialisation and Section 151 Officer detailing the annual report.

Friday, 3 February 2023 Service Director, Legal and Governance

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 14 NOVEMBER 2022

Present: Councillors Shields (Chair), Denness, Furnell (Vice-Chair), D Galton and White

16. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 26th September 2022 be approved and signed as a correct record.

17. **CENTRE FOR GOVERNANCE & SCRUTINY (CFGS)- GOVERNANCE REVIEW REPORT**

The Committee considered the report of the Chief Executive detailing the independent review of the Council's broad governance framework undertaken by the Centre for Governance and Scrutiny commissioned by the Council and the associated action plan as a result.

Councillor Fitzhenry, Opposition Leader who was the Leader of the Council at the time the review was commissioned was in attendance and with the consent of the Chair addressed the meeting.

The Committee was re-assured that the report did not highlight any fundamental issues or flaws in the decision-making framework or anything unlawful had taken place, however it was noted that delivery of it needed development particularly when a new administration took control of the Council.

The Committee also noted that the Political Awareness Training Course for Officers had re-started post Covid, early discussions would be taking place before the all-out Elections in May 2023 with Group Leaders on what they would like to see in the first 30, 60, 90, 120 days of becoming the administration in order to better support the period of transition or change.

The 10-point action plan was noted but did need further development going forward and the Committee, noted that most actions would probably be implemented post May elections and requested a progress report on the implementation plan prior to the pre-election period.

RESOLVED:

(i) That the Committee noted the Centre for Governance and Scrutiny independent report on Governance detailed in appendix 1 of the report;
(ii) That the 10-point action plan be endorsed; and
(iii) That a progress report on the content and implementation of the action plan is presented to Committee ahead of the pre-election period

18. **ANNUAL REVIEW OF THE HEALTH AND SOCIAL CARE CONTRACTS MANAGED BY THE INTEGRATED COMMISSIONING UNIT**

The Committee received and noted the report of the Director of Commissioning, Integrated Health and Care detailing the Annual Review of the Health and Social Care Contracts managed by the Integrated Commissioning Unit (ICU). The report provided a summary of the current arrangements for management of these contracts, including mechanisms for assurance of quality, performance and governance. In addition, the report provided a detailed overview of the ICU's strategic contracts and their performance over the last 12months.

The Committee requested further detail outside of the meeting in order to understand all of the information and if it should be going to Scrutiny in addition to Governance Committee, particular reference regarding this was made to Northlands House and Oak Lodge.

19. **INTERNAL AUDIT PROGRESS REPORT 2022-23**

The Committee received and noted the report of the Chief Internal Auditor detailing the Internal Audit Progress Report for the period 1st April to 26th October 2022.

The Committee noted that there was nothing significant to be flagged in any of the audits that had taken place. In addition, it was noted that the School Budgets Deficit Audit detailed on page 60 of the report should not be detailed in the report as it was a hangover from a previous report and could be deleted.

20. **MEMBER'S ALLOWANCE SCHEME**

The Committee received and noted the report of the Director Legal and Business Services detailing the Members' Allowance Scheme and the requirement to review the scheme by 21st November 2022 and have regard to the recommendations of the Independent Renumeration Panel before the adoption of a new scheme.

The Committee noted that the Lord Mayor's role did not come with a Special Responsibility Allowance under the regulations, however given the magnitude of the role and it not just being a ceremonial one, but the role also chaired Full Council and acted as arbitrator on decision making regarding questions, motions etc that it should receive renumeration in the form of a Special Responsibility Allowance if lawful to do so.

The Committee noted the report would be considered by Full Council on 16th November 2022 and that all political groups would be reflecting on the discussions of the Committee at their group meeting ahead of Full Council where the decision regarding Members' Allowances would be taken.

21. **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MIDYEAR 2022/23**

The Committee considered the report of the Executive Director Finance and Commercialisation (S151 Officer) detailing the review of the Prudential Limits and Treasury Management Midyear 2022/23.

The Committee noted that the report highlighted the increasingly difficult economic climate being operated in, with record hight levels of inflation and rising interest rates. In addition, the Committee noted that ethical policies of investments were not taken into consideration it was about the Government market and where those investments were.

RESOLVED:

(i) That the Treasury Management (TM) activities for 2022/23 and performance against Prudential Indicators be noted;
(ii) That the continued proactive approach to TM had led to reductions in borrowing costs and safeguarded investment income during the year be noted; and
(iii) That authority continued to be delegated to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.

22. **ANNUAL COMPLAINTS REPORT 2021-22**

The Committee received and noted the report of the Director Legal and Business Services detailing the Annual Review of Complaints for 2021/22 and summarising the type and number of complaints received from 1st April 2021 to 31st March 2022.

The Committee noted that overall complaints registered with the Council had increased this year to 537 from 432 the previous year which was considered to be a result of the post pandemic recovery plan.

23. **ANNUAL RISK MANAGEMENT REPORT**

The Committee deferred this item to the next meeting due to insufficient time remaining in the meeting for the report to receive due consideration.

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DECISION-MAKER:	**GOVERNANCE COMMITTEE**
SUBJECT:	**INTERNAL AUDIT PROGRESS REPORT 2022-23**
DATE OF DECISION:	**13th February 2023**
REPORT OF:	**CHIEF INTERNAL AUDITOR**

CONTACT DETAILS				
Executive Director	**Title**	**FINANCE & COMMERCIALISATION**		
	Name:	**John Harrison**	**Tel:**	**023 8083 4897**
	E-mail	**John.Harrison@southampton.gov.uk**		
Author:	**Title**	**CHIEF INTERNAL AUDITOR**		
	Name:	**Elizabeth Goodwin**	**Tel:**	**023 8083 4616**
	E-mail	**Elizabeth.Goodwin@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:

- Progress made against the agreed annual audit plan.
- Results of audit activities and
- Management's response to risk that in the CIA's judgement maybe unacceptable to the Authority

All other PSIAS requirements are communicated in either the charter or annual audit opinion, which are reported separately to this committee at various times throughout the year.

There are a total of 62 audit reviews in the revised plan for 2022/23. To date, 82% of audits have been completed or are in progress as of 24th January. This represents 34 (55%) audits where the report has been finalised, 7 (11%) where the report is in draft and 10 (16%) audits currently in progress.

There are currently no 'no assurance' reports or critical exceptions contained in this report for this period.

Significant control weaknesses have been identified for two full audits which received 'limited assurance'. The first relating to a school site visit and the other relating to an end-to-end process review. Further details can be found in Appendix 1.

Progress has been made implementing agreed actions despite significant pressures across the organisation. It is positive to note that the internal control environment specifically in relation to compliance has also improved.

Internal Audit progress for the period 27th October 2022 to 24th January 2023 is covered in in the report attached as Appendix 1.		
RECOMMENDATIONS:		
	(i)	That the Governance Committee notes the Internal Audit Progress report for the period 27th October 2022 to 24th January 2023.
REASONS FOR REPORT RECOMMENDATIONS		
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.	
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
	None	
DETAIL (Including consultation carried out)		
	As above	
RESOURCE IMPLICATIONS		
Capital/Revenue		
	None	
Property/Other		
	None	
LEGAL IMPLICATIONS		
Statutory power to undertake proposals in the report:		
	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.	
Other Legal Implications:		
	None	
RISK MANAGEMENT IMPLICATIONS		
	The report is for note only, there is no decision to be made.	
POLICY FRAMEWORK IMPLICATIONS		
	None	

KEY DECISION?	**No**	
WARDS/COMMUNITIES AFFECTED:	None	
SUPPORTING DOCUMENTATION		
Appendices		
1.	Internal Audit Progress Report for the period 27th October 2022 to 24th January 2023.	

Documents In Members' Rooms

1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		**No**
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		**No**
Other Background Documents **Other Background documents available for inspection**		
Title of Background Paper(s): **None**		**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1.		
2.		

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SOUTHAMPTON CITY COUNCIL

Internal Audit Progress Report

13th February 2023

Elizabeth Goodwin, Chief Internal Auditor

Agenda Item 5

Appendix 1

1. Introduction

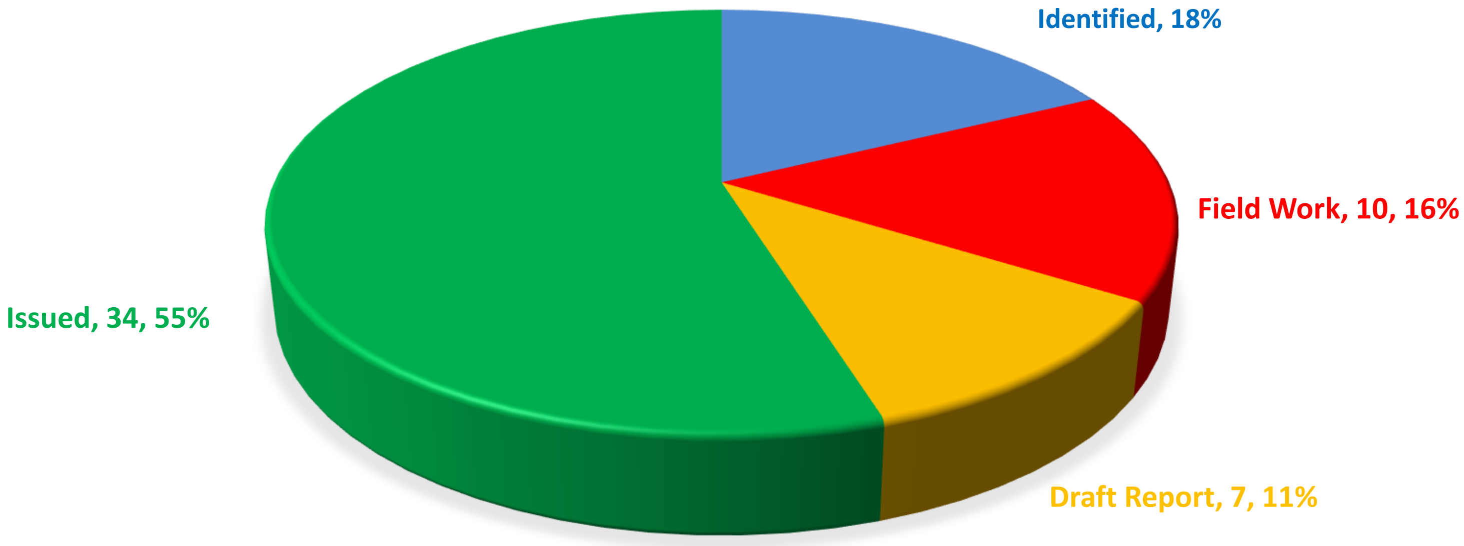
This report includes the status against the 2022/23 internal audit plan for this reporting period (27th October to 24th January 2023).

In summary 82% audits from the 2022/23 plan have been concluded or are in progress. All items yet to be fully completed will be finalised to enable an annual opinion to be given.

There are currently no ‘no assurance’ reports or critical exceptions contained in this report for this period. Progress has been made implementing agreed actions despite significant pressures across the organisation. It is positive to note that the internal control environment specifically in relation to compliance has also improved.

All items completed since the last committee attendance are detailed at a summary level in this report. This includes, full audits, follow up work and grant work completed.

2. Audit Plan Progress as of 24th January 2023



There are a total of 62 reviews in the 2022/23 Audit Plan as of 24th January 2023.

To date, 82% of audits have been completed or are in progress as of 24th January. This represents 34 (55%) audits where the report has been finalised, 7 (11%) where the report is in draft and 10 (16%) audits currently in progress.

Status	Previous Position	Current Position
Identified	29	11
Fieldwork	12	10
Draft Report	2	7
Final Report	22	34
Total	65	62

3. Audit Plan Status/Changes

The Audit Plan has been more flexible this year to take into account additional work predominately in the area of grants and long-term sickness within the audit service. Since the last reporting period the following should be noted; **Additions, removals, and amendments to the 2022/23 Audit Plan:**

- Addition – Disabled Facilities Grant Process Review - process review required outside of grant verification
- Addition - Key Controls Assurance - due to emerging pattern of breaches
- Removed – Townhill Junior School - due to long term staff sickness at the school
- Removed - Asbestos - due to services implementation of outstanding action plan
- Removed - Health & Safety - due to services implementation of outstanding action plan
- Removed - Water Safety - due to services implementation of outstanding action plan
- Removed - Direct Payments - due to services delay in implementation of action

All the audits removed above will now be performed as part of the 2023/24 audit plan.

4. Areas of Concern

There are no 'no assurance' opinion audits being reported on this period, all other findings are noted below.

5. Assurance Levels

Internal Audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives for the area under review.

Assurance Level	Description / Examples
Assurance	*No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority*
Reasonable Assurance	*Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority*
Limited Assurance	*Control weaknesses or risks were identified which pose a more significant risk to the Authority*
No Assurance	*Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit*
NAT	*No areas tested*

Audits rated No Assurance are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.

6. Exception Risk Ranking

The following table outline the exceptions raised in audit reports, reported in priority order and are broadly equivalent to those previously used.

Priority Level	Description
Low Risk (Improvement)	*Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.*
Medium Risk	*These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.*
High Risk	*Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not 'show stopping' but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.*
Critical Risk	*Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the Council's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.*

Any critical exceptions found the will be reported in their entirety to the Governance Committee along with Director's comments

7. 2022/23 Audits completed since the last reporting period

Data Intelligence (Public Health)

Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Overall Assurance Level

Assurance

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	Assurance
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	No Areas Tested

The audit review of the arrangements for Data Intelligence found that the authority was complying with the terms of its Public Health data sharing agreements.

Deferred Payments

Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Overall Assurance Level

Assurance

Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	No Areas Tested

Based on the testing undertaken, Internal Audit was able to place assurances that the deferred payments process is of low risk to the authority.

Disabled Facilities Grant Process Review

Exceptions Raised

Critical	High	Medium	Low
0	0	0	1

Overall Assurance Level

Assurance

Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	No Areas Tested

The low risk exception relates to clearly documenting the approval and basis for non-Disabled Facilities Grant expenditure.

Engaging Third Parties (End-to-End Procurement Process)

Exceptions Raised

Critical	High	Medium	Low
0	3	0	0

Overall Assurance Level

Limited

Assurance Level by Scope Area

Achievement of Strategic Objectives	Limited
Compliance with Policies, Laws & Regulations	No Areas Tested
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Limited
Reliability and Integrity of Data	No Areas Tested

The first high risk exception relates to a lack of service area expertise in preparing tender documentation and specifying the requirements for the procurement exercises. Testing identified 35 projects with procurement needs which were still awaiting a specification to be drafted, on average 73 weeks from the initial request. The second high risk relates to testing identifying only 16% of completed projects were planned, impacting on the ability to resource and forward plan more difficult. At the time of testing, 57% of projects were listed as ‘at a standstill, has high risk issues, a lack of stakeholder engagement or timescales were unachievable’. The final high risk related to concerns with the validity of system data and its impact on corporate reporting. It should be noted that the causes of these risks are authority wide with service areas not completing documentation to schedule and undertaking ineffective procurement planning causing delays to procurement exercises.

Fundings Pathways

Exceptions Raised

Critical	High	Medium	Low
0	1	0	0

Overall Assurance Level

Reasonable

Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	No Areas Tested

The high risk exception relates to testing identifying a lack of formal terms of reference for panels including the delegation to the panel of authority to commit public funds to Adult Social Care cases.

Vermont School

Exceptions Raised

Critical	High	Medium	Low
0	3	3	0

Overall Assurance Level

Limited

Assurance Level by Scope Area

Achievement of Strategic Objectives	Assurance
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	Limited
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	No Areas Tested

The first high risk relates to the school not developing and maintaining an asset register in line with the local scheme for financing schools. The second high risk relates to a lack of a finalised business continuity plan. The third high risk relates to purchase orders not being raised before the goods were invoiced and a lack of receipts for purchase card transactions. The three medium risks relate to the website not conforming to legislative requirements, a lack of security to safeguard confidential paper records and a minor discrepancy between cash held on site and system information.

List of Completed Grants	
Grant Outcomes:	**Assurance/Certified**

1. Disabled Facilities Grant
2. EU Perinatal Mental Health Grant Claim 9

8. 2022/23 Follow-up Audits completed since the last reporting period

IT Feeder Systems

Original Exceptions Raised

Critical	High	Medium	Low
0	3	1	0

Latest implementation date scheduled was March 2022
Revised date: March 2023

Original Assurance Level	Follow Up Assurance
Limited	Limited

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	3 (High) 1 (Medium)	0	0	0	0	0

Follow up testing found that the first high risk relating to completeness and accuracy checks on transferred data with the action being delayed awaiting upgrades in feeder systems. The second high risk relating to the infrastructure for supporting bulk data feeds into Business World, remains in progress as while there is greater business continuity planning, there are still issues with reliance on a single staff member. The third high risk relating to system security remained in progress with steps being taken with revised implementation dates. The medium risk is due to a lack of automation when transposing data from feeder systems to Business World which remains in progress awaiting full implementation of the DASH roadmap.

St Patrick's Catholic Primary School

Original Exceptions Raised

Critical	High	Medium	Low
0	1	3	0

Latest implementation date scheduled was October 2021
Revised date: N/A

Original Assurance Level	Follow Up Assurance Level
Reasonable	Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	0	0	2 (Medium)	1 (High) 1 (Medium)	0	0

Follow up testing was able to close the high risk and 3 medium risk exceptions.

Mansbridge Primary School

Original Exceptions Raised

Critical	High	Medium	Low
0	6	2	0

Latest implementation date scheduled was December 2021
Revised date: January 2023

Original Assurance Level		Follow Up Assurance
Limited	→	Reasonable

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High) 1 (Medium)	0	2 (High)	0	2 (High) 1 (Medium)	1 (High)	0	0

Follow up testing was able to close 3 high and 1 medium risk exception. One high risk relating to the terms of reference remains in progress due to the lack of clear terms for the financial management of the school. The first high risk in progress covers a lack of skills matrix with testing identifying a skills analysis which is yet to be undertaken. The second high risk involving petty cash remain in progress due to the account going overdrawn on one occasion. A medium risk relating to inventory remains in progress due to inventory checks not being implemented.

Shirley Warren Learning Campus (Primary & Nursery School)

Original Exceptions Raised

Critical	High	Medium	Low
0	3	4	0

Latest implementation date scheduled was December 2021
Revised date: March 2023

Original Assurance Level		Follow Up Assurance Level
Limited	→	Reasonable

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (High) 1 (Medium)	0	1 (High) 3 (Medium)	1 (High)	0	0

Follow up testing was able to close 2 high and 3 medium risk exceptions. One high risk relating to the Schools Financial Value Standard self-assessment (SFVS) remains in progress due to there being 10 “in part” or “no” responses and the summary of agreed actions and timetable section had not been completed. The medium risk covering raising purchase orders, remains in progress as a sample of 5 invoices found 1 had not raised a purchase order.

9. Follow-up Action Categorisation

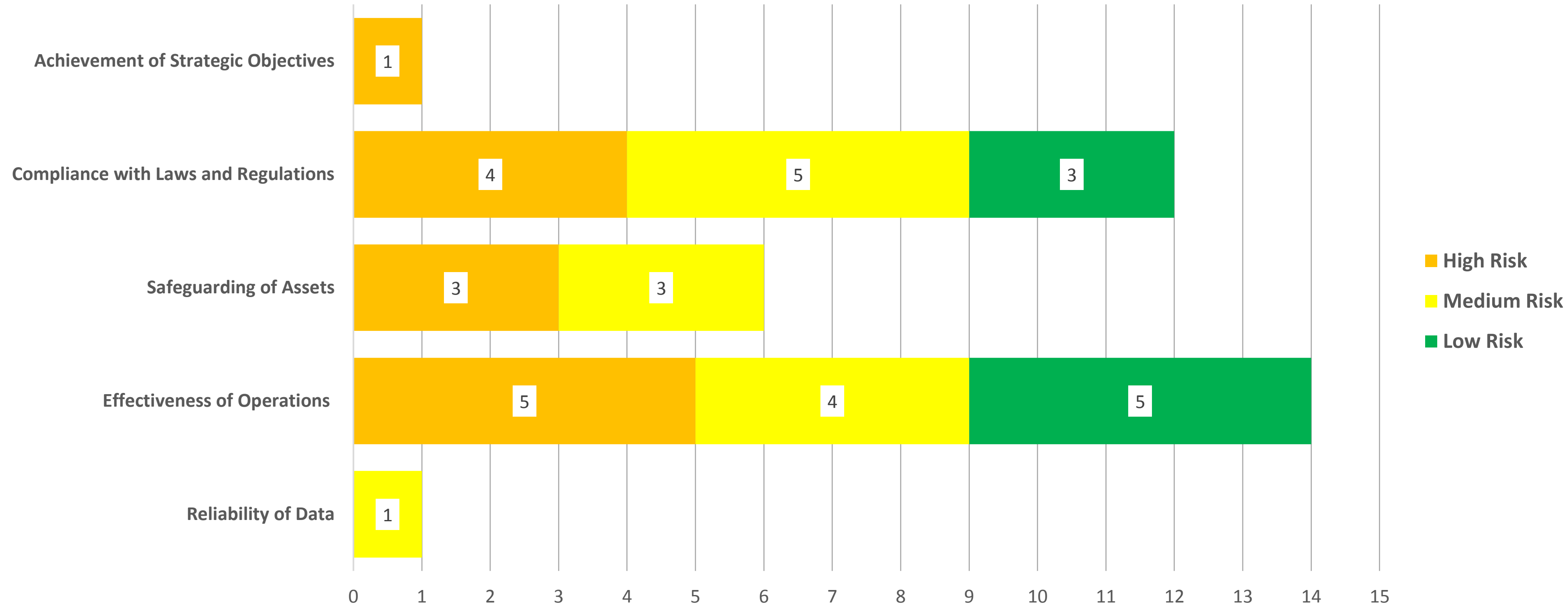
The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

Follow Up Categories	Description
Open	*No action has been taken on agreed action.*
Pending	*Actions cannot be taken at the current time but steps have been taken to prepare.*
In Progress	*Progress has been made on the agreed action however they have not been completed.*
Implemented but not Effective	*Agreed action implemented but not effective in mitigating the risk.*
Closed: *Verified*	*Agreed action implemented and risk mitigated, verified by follow up testing.*
Closed: *Not Verified*	*Client has stated action has been completed but unable to verify via testing.*
Closed: *Management Accepts Risk*	*Management has accepted the risk highlighted from the exception.*
Closed: *No Longer Applicable*	*Risk exposure no longer applicable.*

10. Audits in Draft

Audit	Directorate	Projected Reporting	Revised	Comments
Deprivation of Liberty	Wellbeing & Housing	April 2022		
Fleet Management	Place	April 2022		
Houses in Multiple Occupation (HMO)	Place	April 2022		
Operator Licence	Place	April 2022		
Public Health Outcomes	Wellbeing & Housing	April 2022		
Tower Blocks (Safety Compliance)	Wellbeing & Housing, Place	April 2022		
Waste Management	Place	April 2022		

11. Exception Analysis to Date



	Achievement of Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Total
Critical Risk						
High Risk	1	4	5		3	13
Medium Risk		5	4	1	3	13
Low Risk - Improvement		3	5			8
Grand Total	**1**	**12**	**14**	**1**	**6**	**34**

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed in May 2018.

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DECISION-MAKER:	GOVERNANCE COMMITTEE			
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2023/24 TO 2026/27			
DATE OF DECISION:	13 FEBRUARY 2023			
REPORT OF:	EXECUTIVE DIRECTOR FOR FINANCE, COMMERCIALISATION & S151 OFFICER			

CONTACT DETAILS

AUTHOR:	**Name:**	Steve Harrison	**Tel:**	07392 864525
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	E-mail:	john.harrison@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows daily. The requirement to invest or borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the associated risks, including the loss of invested funds and the revenue effect of changing interest rates.

Investment limits within this report have been increased to allow for a possible change in strategy.

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

	(i)	Approve the Council's Treasury Management (TM) Strategy and Indicators for 2023/24 to 2026/27, as detailed in Appendix 1.
	(ii)	Note that at the time of writing this report it has been assumed that the budget proposals within the Medium Term Financial Strategy, Budget and Capital Programme 2023/24 to 2026/27 report, to be submitted to Council on the 22 February 2023, will be approved. Should the recommendations change and have any impact on the Prudential Indicators this will be reported to Council on 22 February 2023.
	(iii)	The Executive Director Finance & Commercialisation (EDFC) will report any amendments and in year revisions to the TM Strategy as part of quarterly financial and performance monitoring.
	(iv)	Endorse the proposal to continue to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.

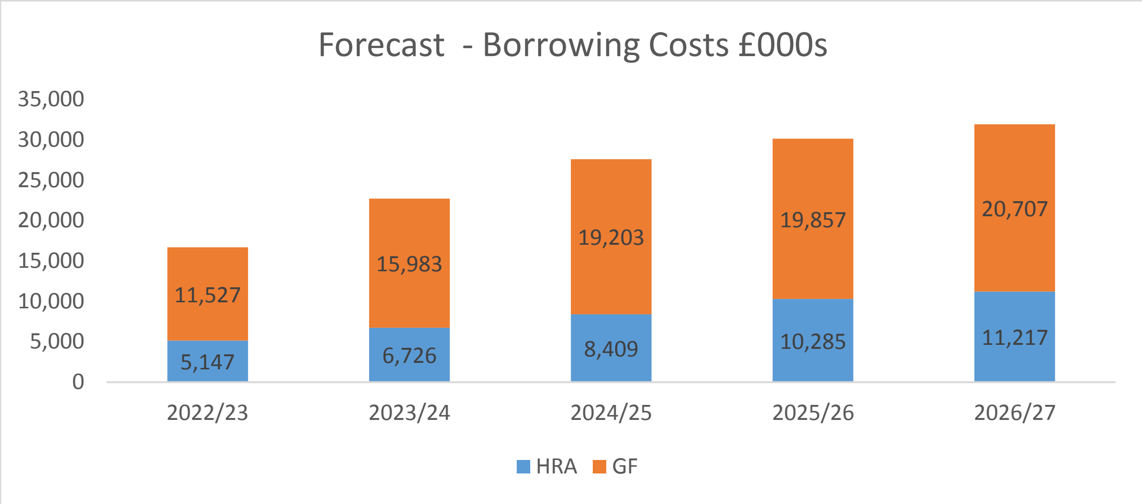
REASONS FOR REPORT RECOMMENDATIONS

1.	In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Council, each year the

	Council must set certain borrowing limits and approve the Treasury Management Strategy, as detailed in Appendix 1.
2.	This report only covers treasury investments. Investments held for service purposes or for commercial profit are considered as part of the Investment Strategy 2023/24 being reported to Full Council on 22 February 2023.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report being taken at Full Council on 22 February 2023.
DETAIL (Including consultation carried out)	
	CONSULTATION
4.	The proposed Capital Update report on which this report is based has been subject to separate consultation processes.
	BACKGROUND
5.	Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved the Council money in terms of net interest costs. When opportunities arise long term borrowing has been considered and taken, in consultation with our advisors, Arlingclose.
6.	CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use during business.
7.	The strategy considers the impact of the Council's proposed revenue budget and capital programme on the balance sheet position, the treasury prudential indicators and the current and projected treasury position. There is no longer a requirement to include indicators relating to Prudence, Affordability & Sustainability in the Treasury Strategy as they are now reported as part of the Capital Strategy which is presented as part of the Capital Programme update, to be approved at Council on 23 February 2023. The economic background and outlook for interest rates (Annex 2 to Appendix 1) has also been taken into account in developing this strategy.
8.	The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is committed to achieving value for money, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To assist the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise on strategy and provide market information to aid decision making. However, it should be noted that the decisions are taken independently by the EDFC, considering this advice and other internal and external factors.
9.	Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury

	investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
10.	Under the International Financial Reporting Standard IFRS 9, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
11.	The core elements of the 2023/24 Treasury strategy are: • To extend the use of short term variable rate debt to take advantage of the current market conditions of low interest rates. • To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments as appropriate during the year, to provide a balanced portfolio against interest rate risk. • To secure the best rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio. • To invest surplus funds prudently, the Council's priorities being: - Security of invested capital - Liquidity of invested capital - An optimum yield which is commensurate with security and liquidity. • To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
12.	The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.
13.	As shown in chart 1 below, forecast borrowing costs in 2023/24 are £22.71M, of which £6.73M relates to the HRA. This is made up of interest on borrowing of £13.04M (based on an average debt portfolio of £350.16M at an average interest rate of 3.40% plus MRP and other costs of £9.67M. This is expected to rise to £31.92M (£11.22M HRA) by 2026/27 to accommodate the capital programme, utilisation of reserves and refinancing of borrowing. New long-term loans taken over the period of the strategy will be borrowed at an average rate of 5.69%. based on our advisors' forecast rates.

Chart 1 – Forecast Borrowing Costs



14. Investment income for 2023/24 is forecast at £1.84M based on an average portfolio of £48M at an average of 3.72%.

If actual levels of investments and borrowing, and/or interest rates differ from that forecast, performance against budget will be correspondently different.

Property/Other

15. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

16. Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.

17. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1) (a) of the 2003 Act.

A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management.

This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

Other Legal Implications:

18. None

POLICY FRAMEWORK IMPLICATIONS

19. This report has been prepared having regard with the CIPFA Code of Practice on Treasury Management.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None

SUPPORTING DOCUMENTATION		
Appendices		
1.	Treasury Management Strategy 2023-24	
Annex 1	Treasury Management Policy Statement	
Annex 2	Economic and Interest Outlook	
Annex 3	Existing Investment & Debt Portfolio Position and Projections	
Annex 4	Projected Movement on Capital Financing Requirement	
2.	Treasury Management Practices	
3.	Glossary of Treasury Terms	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.		**No**
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		**No**
Other Background Documents		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	None	

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Southampton City Council

TREASURY MANAGEMENT STRATEGY

2023/24 – 2026/27

Contents

	SECTION 1 - INTRODUCTION
1.1	**BACKGROUND**
1.1.1	Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code)* which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
1.1.2	Overall responsibility for treasury management (TM) remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. Our current policy is shown in Annex 1 (Treasury Management Policy Statement).
1.1.3	Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.
1.2	**EXTERNAL CONTEXT**
1.2.1	Annex 2 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2022/23 and forecast movement in interest rates.
1.2.2	For the purpose of setting the budget, it has been assumed that new investments for 2023/24 will be short-term and at an average rate of 3.94% and new long-term loans taken over the period of the strategy will be borrowed at an average rate of 5.69%.
1.3	**LOCAL CONTEXT**
1.3.1	At 31 December 2022 the Council held £336M of debt (£277M borrowing plus £59M other long term liabilities) and £67M investments which is set out in further detail in Annex 3 (Existing Investment & Debt Portfolio Position and Projections).
1.3.2	The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR is reduced by the application of resources such as capital receipts, grants or revenue funds.
1.3.3	While usable reserves and working capital (balance sheet resources) are the underlying resources available for investment.
1.3.4	The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Table 1 shows that the Council has an increasing CFR due to the impact of the capital programme and a decreasing working balance surplus and will therefore need to borrow up to £224M over the forecast period. Annex 4 shows the projected movement on CFR between years.

1.3.5	Table 1: Balance Sheet Summary and Forecast

		31-Mar-22 Actual £M	31-Mar-23 Forecast £M	31-Mar-23 Forecast Movement in year £M	31-Mar-24 Forecast £M	31-Mar-25 Forecast £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M
1	General Fund CFR	339.15	352.27	13.12	370.77	372.61	371.52	390.03
2	Housing CFR	168.73	181.70	12.97	208.07	236.74	267.15	267.15
3	**Total CFR**	**507.88**	**533.97**	**26.09**	**578.84**	**609.35**	**638.67**	**657.18**
4	Less Other Debt Liabilities*	(60.62)	(57.10)	3.52	(53.46)	(49.12)	(45.27)	(41.69)
5	**Loans CFR**	**447.26**	**476.87**	**29.61**	**525.38**	**560.23**	**593.40**	**615.49**
6	Less External Borrowing**	(255.30)	(288.65)	(33.35)	(280.10)	(272.00)	(263.90)	(255.80)
7	Internal (over) Borrowing	**191.96**	**188.22**	**(3.74)**	**245.28**	**288.23**	**329.50**	**359.69**
8	Balance sheet Resources	(191.97)	(169.91)	22.05	(133.12)	(133.17)	(136.16)	(136.16)
9	**New Borrowing or (Investments)**	**(0.00)**	**18.31**	**18.31**	**112.16**	**155.06**	**193.34**	**223.53**

** finance leases, PFI liabilities and transferred debt which form part of the Council's total debt*

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

1.3.6 Table 1 shows that the Council's CFR is rising over the next 3 years. This is due to investment in the capital programme, summarised below are the major projects expected to be undertaken:

- School SEND Expansion Programme
- Highways and Integrated Transport Programme
- Improving Outdoor Leisure Facilities
- Restoring the City's Heritage assets
- Townhill Park Regeneration (HRA)
- Energy Efficiency Investment in Homes (HRA)

1.3.7 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation, as committed borrowing (row 6) is significantly below the loans CFR (row 5).

1.4 **Liability Benchmark**

1.4.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £20M at each year-end to maintain sufficient liquidity but to further minimise credit risk.

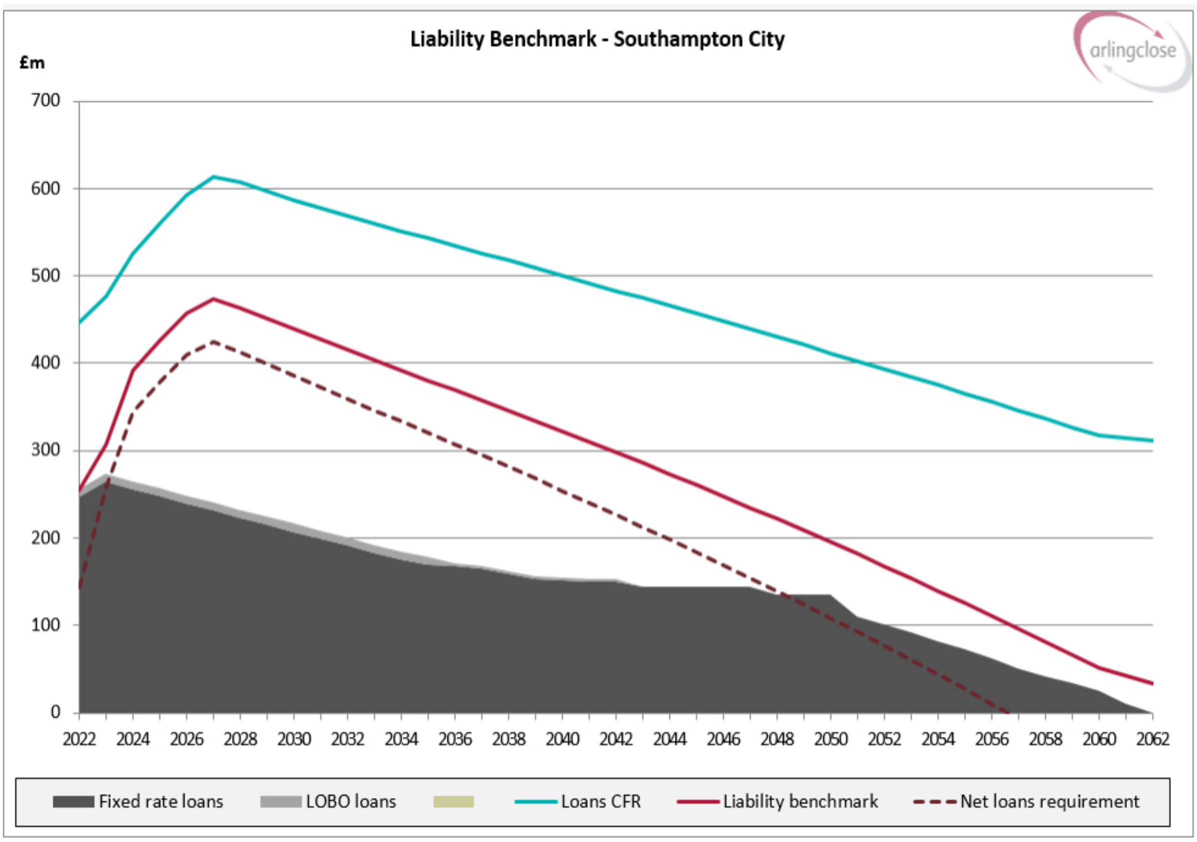
1.4.2 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Liability benchmark

	31/03/2022 Actual £M	31/03/2023 Forecast £M	31/03/2023 Forecast Movement £M	31/03/2024 Forecast £M	31/03/2025 Forecast £M	31/03/2026 Forecast £M	31/03/2027 Forecast £M
Loans CFR	**447.26**	**476.87**	**29.61**	**525.38**	**560.23**	**593.40**	**615.49**
Less Usable Reserves	(191.97)	(217.92)	(25.96)	(181.12)	(181.18)	(184.17)	(184.17)
Less Working Capital Surplus	0.00		0.00				
Plus Minimum Investments		48.01	48.01	48.01	48.01	48.01	48.01
Liability Benchmark	**255.30**	**306.96**	**51.66**	**392.26**	**427.06**	**457.24**	**479.33**
Less Committed External Borrowing	(255.30)	(288.65)	(33.35)	(280.10)	(272.00)	(263.90)	(255.80)
Minimum Borrowing Need	**(0.00)**	**18.31**	**18.31**	**112.16**	**155.06**	**193.34**	**223.53**

1.4.3 Following on from the medium-term forecasts in table 2 above, the long term liability benchmark assumes minimum revenue provision based on the life of the asset and income, expenditure and reserves all increasing by inflation. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.

1.4.4



1.4.5 This demonstrates that even with lower investment balances that there is still an underlying need for the council to borrow during 2023/24 as our actual committed debt at £280M will be below the benchmark of £392M.

	SECTION 2 - BORROWING STRATEGY
2.0	The Council currently holds £277M of loans, an increase of £21M since 31 March 2022 which was taken to partially fund the capital programme and replace maturing debt. This reflects the Council's policy of only borrowing when cash flows dictate or unless a particular good opportunity arises or to protect itself against an expected material increase in PWLB rates. The balance sheet forecast in Table 1 above shows that the Council expects the total loans CFR to increase by £30M in 2022/23 and by a further £48M in 2023/24 bringing our estimated loans CFR to £525M. As can be seen in Table 2 committed borrowing at the end of 2023 is £274M, an increase of £18M from 31 March 2022, this net increase reflects maturities in year of £7.1M and new borrowing of £25M. If the forecast capital programme is achieved and reserves fall as predicted, then further borrowing of up to £112M will be required by 31 March 2024.
2.1	**Objectives**
2.1.1	The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
2.2	**Strategy**
2.2.1	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 likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
2.2.2	By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. It is hoped that volatility in the market will start to diminish throughout 2023/24 and provide a more certainty over future rates.
2.2.3	If it was cost effective the Council could also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.
2.2.4	Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.
2.3	**Sources of Borrowing**
2.3.1	The approved sources of long-term and short-term borrowing are: • HM Treasury's PWLB lending facility (formerly the Public Works Loan Board) • any institution approved for investments (see below)

	• any other bank or building society authorised to operate in the UK • any other UK public sector body • UK public and private sector pension funds (except HCC Pension Fund) • capital market bond investors • UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
2.3.2	In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities: • leasing • hire purchase • Private Finance Initiative • sale and leaseback
2.3.3	The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield (except for refinancing of existing debt; including internal financing) the Authority intends to avoid this activity, and therefore retain its access to PWLB. Regeneration aims for investment remain acceptable, but all capital plans will be scrutinised by Government and will require the S151 officer to state they contain no 'invest for yield' proposals relying on borrowing.
2.3.4	**UK Municipal Bonds Agency plc (MBA)**
2.3.5	MBA was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. A report setting out in full the details, options and risks of the MBA was considered by full Council on 10 February 2016 and any initial proposal to borrow from the Agency will therefore need be the subject of a separate report to both Governance Committee and Full Council.
2.3.7	**Lender's Option Borrower's Option Loans (LOBOs)**
2.3.8	The Council holds £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2023/24 and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so to reduce refinancing risk in later years.

2.4	**Short Term and Variable Rates**
2.4.1	Short term loans leave the Council 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. Financial derivatives may be used to manage this interest rate risk but in line with the CIPFA code, the Council would seek and consider external advice before entering into any agreement to ensure that it fully understands the implications.
2.5	**Debt Rescheduling**
2.5.1	The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.
	SECTION 3 – TREASURY INVESTMENT STRATEGY
3.0	The Council invests its money for three broad purposes: • because it has surplus cash as a result of its day-to-day activities (known as **treasury management investments**), • to support local public services by lending to or buying shares in other organisations (**service investments**), and • to earn investment income (known as **commercial investments** where this is the main purpose).
3.1	**Objectives**
3.1.1	The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Whilst a return is sought, the aim of TM activity is not primarily commercial in nature, it reflects addressing the cashflow needs of the council and the need for prudence and risk minimisation with public cash holdings. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested, however it should be noted that a lower rate is an acceptable offset for higher credit and less risk, for example a covered bond. The Authority also aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
3.2	**Strategy**
3.2.1	Due to an increasing borrowing requirement the overall treasury strategy is to minimise both external borrowing and investments and to only borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take

	pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. For longer term investments the Council aims to continue to diversify into more secure and/or higher yielding asset classes during 2023/24. The majority of cash used for cash flow purposes is invested in money market funds, DMADF or with other Local Authorities.
3.3	**ESG Policy**
3.3.1	Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
3.4	**Business Model**
3.4.1	Under the International Financial Report Standard IFRS 9, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
3.5	**Approved Counterparties**
3.5.1	The Council may invest its surplus funds with any of the following counterparty types, subject to the cash limits (per counterparty) and time limits detailed below. This is the absolute limit and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.
3.5.2	Table 3: Approved Investment counterparties and Limits

Sector	Time limit		Counterparty limit	Sector limit
	Previous	New (capped)		
The UK Government	50 years	3 years	Unlimited	n/a
Local authorities & other government entities	25 years	3 years	£10M	Unlimited
Secured investments *	5 years	3 years	£10M	Unlimited
Banks (unsecured) *	13 months	13 months	£5M	Unlimited
Building societies (unsecured) *	13 months	13 months	£5M	10%
Registered providers (unsecured) *	5 years	3 years	£10M	25%
Money market funds *	n/a	n/a	£10M per fund and no more than 0.50% of any investments	Unlimited

			fund in total for non-government funds	
Strategic pooled funds	n/a	n/a	£30M	50%
Real estate investment trusts	n/a	n/a	£20M	25%
Other investments *	5 years	3 years	£1M	5%

**This is the absolute limit, and the working limit will be monitored against actual cash flows and movement on reserves together with advice from our financial advisors and will be adjusted each quarter as necessary in agreement with the CFO.*

Given the Council's forecast need to borrow in 2023/24 the time limits have been updated to no longer than 3 years. Table 3 must be read in conjunction with the notes below.

3.6 **Investment Institutions**

3.6.1 **Minimum Credit Rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £1M per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

3.6.2 **Banks and Building Societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

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

3.6.4 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

3.6.5 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are

	exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £1M per company as part of a diversified pool in order to spread the risk widely.
3.6.6	**Registered Providers (unsecured):** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
3.6.7	**Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
3.6.8	**Strategic Pooled Funds:** Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
3.6.9	**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
3.6.10	**Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.
3.6.11	**Operational bank accounts**: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept to a minimum. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.
3.6.12	Given the stresses placed on the council's budget, all forms of investment will be carefully monitored during the year. The Chief Financial Officer (CFO), under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported quarterly to Cabinet.

3.7	**Risk Assessment and Credit Ratings**
3.7.1	Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then: • no new investments will be made, • any existing investments that can be recalled or sold at no cost will be, and • full consideration will be given to the recall or sale of all other existing investments with the affected counterparty. Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
3.8	**Other Information on the Security of Investments**
3.8.1	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 and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
3.8.2	When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
3.9	**Investment Limits**
3.9.1	The Council's revenue reserves and balances available to cover investment losses (excluding Schools, capital and HRA) are forecast to be £92M at 31st March 2023. In order that there is no immediate pressure on available reserves in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and specified investments under advice, such as property funds) will be £10M. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors in Table 4 below. Investments in pooled funds and multilateral development banks do

	not count against the limit for any single foreign country, since the risk is diversified over many countries.
3.9.2	Table 4 –Investment Limits

	Cash limit
Any group of pooled funds under the same management	25% per manager unless under specific advice as taken with CCLA
Negotiable instruments held in broker's nominee account	£50M per broker
Foreign countries	£10M per country

3.10	**Liquidity Management**
3.10.1	The Council undertakes high level cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast. The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.
	SECTION 4 - TREASURY MANAGEMENT PRUDENTIAL INDICATORS
4.0	The Council measures and manages its exposure to treasury management risks using the following indicators.
4.1	**Background**
4.1.1	The Authority typically receives its income (e.g. from taxes and grants) before it pays for its expenditure (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the CIPFA.
4.1.2	During the financial year the Council's investment balances have ranged between £60M and £109M and are currently £67M. Borrowing has ranged between £256M and £277M and is currently £277M.
4.2	**Security**
4.2.1	The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. The average rating of our current portfolio is A+ which is above the target.

	Target
Portfolio average credit rating	A

<table>
<tr><td>4.3</td><td><u>Liquidity</u></td></tr>
<tr><td>4.3.1</td><td>The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and has set a £20M minimum threshold on cash available in instant access accounts, if balances were to fall below this limit, we would consider taking short term loans which are available without giving prior notice and at competitive rates.</td></tr>
<tr><td>4.4</td><td><u>Interest Rate Exposure</u></td></tr>
<tr><td>4.4.1</td><td>This indicator is set to control the Council’s exposure to interest rate risk. The upper limits are based on the one-year revenue impact of a 1% rise or fall in interest rates for existing variable rates on long term loans and assumed short term borrowing, offset by variable investments. The cost of an extra 1% per £1M is £10,000. We do not currently have any variable rate borrowing and any increase in short term borrowing rates should be offset by an increase in short term investment income.

The liability benchmark (Table 2) has identified our borrowing need as, up to £224M by 2026/27 which could equate to an additional £15.25M in borrowing costs.

Outstanding borrowing for current year plus borrowing need for 2023/24 has been used to set indicator below (£18M+£112M).

The limits are set at:
<table>
<tr><th>Interest rate risk indicator</th><th>£M</th></tr>
<tr><td>Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates</td><td>2.0</td></tr>
<tr><td>Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates</td><td>0.5</td></tr>
</table></td></tr>
<tr><td>4.4.2</td><td>The main risk to the authority comes through the continued use of internal borrowing in place of fixed term long term debt for 2023/24. A 1% increase over the forecast rate would equate to £10,000 for each £1M borrowed, plus a possible ongoing impact on an increase in the long term rate.</td></tr>
<tr><td>4.4.3</td><td>The Authority has more exposure to an increase in interest rates than a reduction as our debt portfolio is higher than our investments. A fall in interest rates of 1% would see investment income fall by about £0.47M but this would be offset by reduction in debt charges.</td></tr>
<tr><td>4.5</td><td><u>Maturity Structure of Borrowing</u></td></tr>
<tr><td>4.5.1</td><td>This indicator is set to control the Council’s exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing as set below in Table 5.</td></tr>
</table>

4.5.2	Table 5 – Refinancing rate risk indicator

Period	Lower Limit %	Upper Limit %
Under 12 Months	0	50
12 months and within 24 months	0	50
24 months and within 5 years	0	50
5 years and within 10 years	0	55
10 years and within 20 years	0	60
20 years and within 30 years	0	65
30 years and above	0	75

CIPFA have recently recommended that the centre of the range is consistent with the liability benchmark. As shown in Table 5a the Council has complied with the indicator but will consider this recommendation and look at opportunities outside of the 20 – 40 year timeframe, when taking new debt.

4.5.3 Time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment. Although all LOBOs are now in their call options they are not expected to be called in the near future so are shown as uncertain, but as they only represent 3% of the total debt portfolio an early call would not pose a material risk in refinancing.

4.5.4 Details of our current level of debt and maturity is shown in Table 5a below. This shows that all debt is within existing levels.

4.5.5 Table 5a – Current Debt

Analysis of Loans by Maturity	Lower Limit	Upper Limit	Compliance with Limit	Outstanding 31/12/2023	% of Debt
Less than 1 Year	0	50	Yes	8.10	3
Between 1 and 2 years	0	50	Yes	8.10	3
Between 2 and 5 years	0	50	Yes	24.30	9
Between 5 and 10 years	0	55	Yes	40.50	15
Between 10 and 20 years	0	60	Yes	36.90	13
Between 20 and 40 years	0	60	Yes	149.85	54
Over 40	0	75	Yes	0.00	0
Uncertain Date**	0	5	Yes	9.00	3
				276.75	**100**

4.6 **Long-term treasury management investments**

4.6.1 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury investments are shown below.

4.6.2	<table><tr><th></th><th>Current £M</th><th>2023/24 £M</th><th>2024/25 £M</th><th>2025/26 £M</th><th>2026/27 £M</th></tr><tr><td>Limit on principal invested beyond year end</td><td>100</td><td>30</td><td>30</td><td>30</td><td>30</td></tr></table>
4.6.3	Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.
	SECTION 5 - RELATED MATTERS
5.0	There are a number of related matters that the CIPFA Code requires the Council to include in its Treasury Management Strategy.
5.1	**<u>Monitoring, Reporting and Financial Implications</u>**
5.1.1	The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows: (a) A mid-year review against the strategy approved for the year. (b) An outturn report on its treasury activity, no later than 30 September after the financial year end.
5.1.2	In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring.
5.1.3	Investment income for 2023/24 is forecast at £1.84M based on an average portfolio of £48M at an average of 3.72%.
5.1.4	Forecast borrowing costs for 2023/24 are £22.71M, of which £6.73M relates to the HRA. This is made up of interest on borrowing of £13.04M (based on an average debt portfolio of £350.16M at an average interest rate of 3.40% plus MRP and other costs of £9.67M. This is expected to rise to £31.92M (£11.22M HRA) by 2026/27 to accommodate the capital programme, utilisation of reserves and refinancing of borrowing. However, this will be subject to movement as the need for further borrowing becomes more certain. New long-term loans taken over the period of the strategy will be borrowed at an average rate of 5.69%. based on our advisors' forecast rates.
5.2	**<u>Policy on Use of Financial Derivatives</u>**
5.2.1	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).
5.2.2	The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting

	transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
5.2.3	Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
5.2.4	In line with the CIPFA code, the Council would seek and consider external advice before entering into any agreement to ensure that it fully understands the implications.
5.3	**Markets in Financial Instruments Directive**
5.3.1	The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.
5.4	**Housing Revenue Account Self-Financing and Limit on Indebtedness**
5.4.1	On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. Since then new long-term loans borrowed are assigned to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.
5.4.2	Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance. This balance will be measured, and interest transferred between the General Fund and HRA at an agreed rate. Housing Legislation does not allow impairment losses to be charged to the HRA and consequently any credit related losses on the Council's investments will be borne by the General Fund alone. It is therefore appropriate that the General Fund is compensated for bearing this risk, and all interest transferred to the HRA should be adjusted downwards. The rate will be based on investments with the Debt Management Office. The rate of return on comparable investments with the government is lower and often referred to as the risk-free rate.
5.4.3	Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing were lifted. This means that the previous HRA debt cap of £199.6m has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level. The process for identifying priorities and sites for new build developments is now taking place and is expected to form the basis of a new delivery strategy incorporating affordability and prudence. As part of the new build strategy relevant Prudential Indicators will be agreed.
5.4.4	The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan can be seen in the report being submitted to Council on 22 February 2023.

5.4.5	The HRA by default will underwrite any programmes that are unable to self-fund.
5.5	**OTHER OPTIONS CONSIDERED**
5.5.1	The DLUHC Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted with relevant officers and members 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.

5.5.2

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

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	TREASURY MANAGEMENT PRACTICES
1.	The Council has adopted and has implemented the key principles of the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. This, together with the other arrangements detailed in the operational manual, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if necessary, report upon the effectiveness of these arrangements.
	TMP 1 - RISK MANAGEMENT GENERAL STATEMENT
2.	The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment. The Section 151 Officer will design, implement, and monitor all arrangements for the identification, management, and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation’s objectives in this respect, all in accordance with the procedures set out in TMP 6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the operational manual.
	Credit and counterparty risk management
3.	The Council will ensure its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques*. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter other financing or derivative arrangements. The Authority’s credit and counterparty policies set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the Authority’s ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.
	Liquidity risk management
4.	The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to always enable it to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.
	Interest rate risk management
5.	The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*. It will achieve this by the prudent use of its approved instruments, methods and

	techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications. The Council will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.
	Exchange rate risk management
6.	The Council will manage its exposure to fluctuations in exchange rates to minimise any detrimental impact on its budgeted income/expenditure levels.
	Inflation risk management
7.	The Council will keep under review the sensitivity of its treasury management assets and liabilities to inflation and will seek to manage the risk accordingly in the context of its wider exposure to inflation.
	Refinancing risk management
8.	The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time. It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.
	Legal and regulatory risk management
9.	The Council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly regarding duty of care and fees charged. The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.
	Operational risk, including fraud, error and corruption
10.	The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.
	Priced risk management
11.	The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of

	the principal sum it invests and will accordingly seek to protect itself from the effects of such fluctuations.
	TMP 2 - PERFORMANCE MEASUREMENT
12.	The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's business or service objectives and performance will be measured against relevant benchmarks.
	TMP 3 - DECISION-MAKING AND ANALYSIS
13.	The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered at the time.
	TMP 4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES
14.	The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in its annual Investments Strategy, and within the limits and parameters defined in TMP1 Risk management. The Council has reviewed its classification with financial institutions under MIFID II and will set out in its annual Investment Strategy those organisations with which it is registered as a professional client.
	TMP 5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS
15.	The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly regarding the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function. If it is intended, because of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated. The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also always ensure that those engaged in treasury management will follow the policies and procedures set out. The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The delegations to the Section 151 Officer in respect of treasury management are set out in the Council's Financial Regulations and Scheme of Delegation for Financial Management. The Section 151 Officer will fulfil all such responsibilities in accordance with the

	Council’s policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.
	TMP 6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS
16.	The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function. The Chief Financial Officer will report to the Governance Committee on TM activity / performance as follows: (a) A mid-year review against the strategy approved for the year. (b) An outturn report on its treasury activity, no later than 30 September after the financial year end. In addition, a quarterly update will be presented to Cabinet as part of Quarterly Revenue Financial Monitoring The Council’s Governance Committee has responsibility for the scrutiny of treasury management policies and practices.
	TMP 7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS
17.	The Section 151 Officer will prepare, and full Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, *TMP 2 Performance Measurement, and TMP 4 Approved instruments, methods and techniques.* The Section 151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP 6 Reporting requirements and management information arrangements. The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.
	TMP 8 - CASH AND CASH FLOW MANAGEMENT
18.	Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with *TMP1 Liquidity risk management*, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate).
	TMP 9 – MONEY LAUNDERING
19.	The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and

	reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Council's Anti-Money Laundering Policy.
	TMP 10 - TRAINING AND QUALIFICATIONS
20.	The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements. The responsible officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
	TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS
21.	The Council recognises that responsibility for treasury management decisions always remains with the Council. However, the Council recognises that there may be value in employing external providers of treasury management services, to acquire access to specialist skills and resources. When it employs such service providers, it will do so following a full evaluation of the costs and benefits and will also ensure that the terms of their appointment are properly agreed and documented and subjected to regular review. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer.
	TMP 12 - CORPORATE GOVERNANCE
22.	The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability. The Council has adopted and has implemented the key principles of the Treasury Management Code of Practice. This, together with the other governance practices, is considered vital to the achievement of proper corporate governance in treasury management. Section 151 Officer will monitor and, if necessary, report the effectiveness of these arrangements.

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GLOSSARY OF TREASURY TERMS

Authorised Limit (Also known as the Affordable Limit): A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e., long and short-term borrowing, overdrawn bank balances and long term liabilities).
Balances and Reserves: Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bail - in (Risk): Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon. A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.
Bank Rate: The official interest rate set by the Bank of England’s Monetary Policy Committee and what is generally termed at the “base rate”. This rate is also referred to as the ‘repo rate’.
Bond: A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.
Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR): The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s underlying borrowing need.
CD’s: Certificates of Deposits with banks and building societies
Capital Receipts: Money obtained on the sale of a capital asset.

Constant Net Asset Value (CNAV) These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.
Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Cost of Carry: The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.
Counterparty List: List of approved financial institutions with which the Council can place investments with.
Covered Bond: Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."
CPI: Consumer Price Index – the UK's main measure of inflation.
Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Diversify /diversified exposure: The spreading of investments among different types of assets or between markets in order to reduce risk.
DMADF: Debt Management Agency Deposit Facility is the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury.
DLUHC: The Department for Levelling Up, Housing and Communities (DLUHC), formerly the Ministry for Housing, Communities and Local Government (MHCLG), is the UK Government department for housing, communities, local government in England and the levelling up policy.
Federal Reserve: The US central bank. (Often referred to as "the Fed").
FTSE 100 Index: The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK

company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

This includes most of the day-to-day spending and income.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced with in a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

The G7:

The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth ($223 trillion), according to Credit Suisse Global Wealth Report September 2012.

IFRS:

International Financial Reporting Standards.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

LOBO:

Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

Maturity:

The date when an investment or borrowing is repaid.

LUHC - Department for Levelling Up, Housing and Communities

Formally Ministry for Housing, Communities and Local Government (MHCLG) and the Department for Communities and Local Government (DCLG) which was created on 5 May 2006, replacing the Office of the Deputy Prime Minister (ODPM), with a remit to promote community cohesion and equality, as well as responsibility for housing, urban regeneration, planning and local government.

Maturity Structure / Profile:

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Ministry for Housing, Communities and Local Government (MHCLG):

The Department for Communities and Local Government (DCLG) was created on 5 May 2006, replacing the Office of the Deputy Prime Minister (ODPM), with a remit to promote community cohesion and equality, as well as responsibility for housing, urban regeneration, planning and local government.

On 8 January 2018, the government announced that the Department for Communities and Local Government will be renamed as the Ministry for Housing, Communities and Local Government (MHCLG).

On the 20 September 2021 this has subsequently been rebranded to Department for Levelling Up, Housing and Communities (LUHC)

Money Market Funds (MMF):

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (e.g. £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.
- **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

Non Specified Investment:

Investments which fall outside the CLG Guidance for **Specified investments** (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts: In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate. ******_The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular._*
Property: Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.
Prudential Code: Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators: Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
Public Works Loans Board (PWLB): This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Quantitative Easing (QE): In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *"does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy"*. Source: Bank of England.
Regularity Method - MRP: As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision and this is for debt prior to 2008 which is supported by the Government through the RSG system. Although regulation

28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.
Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
RPI: Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Treasury Management Code: CIPFA’s Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.
Treasury Management Practices (TMP): Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Variable Net Asset Value (VNAV): Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.
Yield: The measure of the return on an investment instrument.

Appendix 4

PROJECTED MOVEMENT ON CAPITAL FINANCING REQUIREMENT

Capital Financing Requirement	31-Mar-22 Actual £M	31-Mar-23 Forecast £M	31-Mar-24 Forecast £M	31-Mar-25 Forecast £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M
Balance Brought forward	337.18	339.15	352.27	370.77	372.61	371.52
New Borrowing	12.68	24.55	31.47	16.76	13.63	32.97
MRP	(6.89)	(7.93)	(9.31)	(10.58)	(10.87)	(10.88)
Movement in Other Liabilities	(3.82)	(3.50)	(3.66)	(4.34)	(3.85)	(3.58)
Total General Fund Debt	**339.15**	**352.27**	**370.77**	**372.61**	**371.52**	**390.03**
HRA	168.73	181.70	208.07	236.74	267.15	267.15
Total CFR	**507.88**	**533.97**	**578.84**	**609.35**	**638.67**	**657.18**
Estimated Debt	316.27	364.43	444.61	473.56	499.28	513.33
Under / (Over) Borrowed	**191.61**	**169.54**	**134.23**	**135.79**	**139.39**	**143.85**

Capital Financing Requirement	31-Mar-22 Actual £M	31-Mar-23 Forecast £M	31-Mar-24 Forecast £M	31-Mar-25 Forecast £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M
Balance Brought forward	337.18	339.15	352.27	370.77	372.61	371.52
New Capital Borrowing	12.68	24.55	31.47	16.76	13.63	32.97
MRP	(6.89)	(7.93)	(9.31)	(10.58)	(10.87)	(10.88)
Movement in Other Liabilities	(3.82)	(3.50)	(3.66)	(4.34)	(3.85)	(3.58)
Total General Fund Debt	**339.15**	**352.27**	**370.77**	**372.61**	**371.52**	**390.03**
HRA	168.73	181.70	208.07	236.74	267.15	267.15
Total CFR	**507.88**	**533.97**	**578.84**	**609.35**	**638.67**	**657.18**
Less Other Debt Liabilities*	(60.62)	(57.10)	(53.46)	(49.12)	(45.27)	(41.69)
Loans CFR	**447.26**	**476.87**	**525.38**	**560.23**	**593.40**	**615.49**

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TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1. In accordance with CIPFA's Code of Practice for Treasury Management in the Public Services the Council has regard to the key recommendations when determining the current strategy.

1.2. Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management: -

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable Treasury Management Practices (TMPs), setting out the way the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3. The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Governance Committee and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.4. Governance Committee will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.5. The Council nominates Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1. The Council defines its treasury management activities as:

"*The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*"

2.2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

ECONOMIC AND INTEREST OUTLOOK

The economic background and interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

Economic Background

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

Credit outlook

Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again. The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2022)

The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

For setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 3.72%, and that new long-term loans will be borrowed at an average rate of 5.69%.

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, for December 2022 is detailed below and is based on the following Underlying Assumptions:

Underlying assumptions:

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power–recent data suggests the UK has passed peak inflation.

- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short-to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight, and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

Forecast:

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises in February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- BoE bond sales and high government borrowing will provide further underlying support for yields.

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EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AND PROJECTIONS

	31-Mar-22 Actual £M	31-Mar-22 Average Yield / Rate %	31-Dec-22 Actual £M	31-Dec-22 Average Yield / Rate %	31-Mar-23 Forecast £M	31-Mar-23 Forecast Average %
Long Term Borrowing						
Public Works Loan	246.30	2.88	267.74	2.77	297.89	2.80
LOBO Loans from Banks	9.00	4.89	9.00	4.86	9.00	4.87
	255.30	**2.95**	**276.74**	**2.90**	**306.89**	**2.82**
Short Term Borrowing						
Other Local Authorities	0.00	0.00	0.00	0.00	0.00	3.00
Other	0.36	0.38	0.44	2.46	0.44	0.00
Total External Borrowing	**255.66**	**2.83**	**277.18**	**2.89**	**307.33**	**2.78**
Other Long Term Liabilities						
PFI Schemes	47.52	9.01	45.95	9.56	44.37	9.56
Deferred Debt Charges (HCC)	13.10	2.66	12.92	3.27	12.73	3.27
Total Gross External Debt	**316.28**	**3.87**	**336.04**	**4.08**	**364.43**	**3.85**
Investments:						
Managed In-House						
Government & Local Authority	(24.41)	0.00	(8.55)	1.98		
Cash (Instant access)	(54.50)	0.51	(29.96)	3.31	(20.00)	4.00
Cash (Notice Account)	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Bonds	(1.06)	5.27	(1.01)	5.27	(1.01)	5.27
Managed Externally						
Pooled Funds (CCLA) & Shares	(27.25)	3.81	(27.00)	3.84	(27.00)	3.00
Total Investments	**(107.22)**	**3.46**	**(66.52)**	**3.64**	**(48.01)**	**3.46**
Net Debt	**209.06**		**269.52**		**316.42**	

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DECISION-MAKER:	**Governance Committee**
SUBJECT:	**Annual Risk Management Report 2022**
DATE OF DECISION:	**13th February 2023**
REPORT OF:	**COUNCILLOR LEGGETT** **CABINET MEMBER FOR FINANCE AND CHANGE**

CONTACT DETAILS				
Executive Director	**Title**	Executive Director for Finance and Commercialisation and Section 151 Officer		
	Name:	John Harrison	Tel:	023 8083 4879
	E-mail	john.harrison@southampton.gov.uk		
Author:	**Title**	Risk & Insurance Manager		
	Name:	Peter Rogers	Tel:	023 8083 2835
	E-mail	peter.rogers@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

Appendix 2 ‘Summary - Strategic Risks’ is not for publication by virtue of category 5 paragraph 10.4 of the Access to Information Procedure Rules as set out in Council’s Constitution. The information is exempt from publication as it includes information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

BRIEF SUMMARY

The Governance Committee is responsible for ensuring that an adequate and effective framework for the identification and management of risk is in place and that appropriate action is being taken to manage risk. The Annual Risk Management Report 2022 (Appendix 1) is intended to provide assurance that the council has in place effective risk management arrangements and that key risks are being managed and monitored appropriately.

RECOMMENDATIONS:

	(i)	To review and comment on the Annual Risk Management Report 2022 (Appendix 1) and to note the ‘Summary - Strategic Risks’ (Appendix 2).

REASONS FOR REPORT RECOMMENDATIONS

1.	This report is presented to the Governance Committee as the member body responsible for providing independent assurance on the adequacy of the risk management framework and the internal control and reporting environment
2.	In addition, the Committee needs to satisfy itself that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3.	No alternative options have been considered

DETAIL (Including consultation carried out)	
4.	The Annual Risk Management Report 2022 is intended to provide assurance to the Governance Committee that the Council has in place effective risk management arrangements and that key risks are being managed and monitored appropriately.
5.	The report is split into two main sections – Section A which provides a summary of the framework and overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk, and Section B which summarises the range of risk management activities that have been undertaken within the last 12 month period.
6.	Also included is a summary of the council's Strategic Risks (Appendix 2), which are reviewed and updated on a quarterly basis and then presented to the Executive Management Board for review noting that up to the End Q2 2022/23 review (in November 2022), reports were presented to the Finance, Commercialisation and Performance Board however that this Board has been discontinued).
7.	The Annual Risk Management Report 2022 report was presented to and reviewed by the Finance, Commercialisation and Performance Board in November 2022.
RESOURCE IMPLICATIONS	
Capital/Revenue	
8.	None
Property/Other	
9.	None
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
10.	The Accounts and Audit (England) Regulations 2015 Part 2 Section 3A(c) require the Council to have in place a 'sound system of internal control which includes effective arrangements for the management of risk'
Other Legal Implications:	
11.	None
RISK MANAGEMENT IMPLICATIONS	
12.	The report is intended to provide the Governance Committee with assurance regarding the arrangements in place to manage risk.
POLICY FRAMEWORK IMPLICATIONS	
13.	None

KEY DECISION?	**No**
WARDS/COMMUNITIES AFFECTED:	Not applicable

SUPPORTING DOCUMENTATION

Appendices	
1.	Annual Risk Management Report 2022
2.	Summary - Strategic Risks (Confidential Item)

Documents In Members' Rooms

1.	Not applicable

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	**No**

Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	**No**

Other Background Documents
Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	Not applicable	

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Appendix 1

RISK MANAGEMENT ANNUAL REPORT 2022

Risk: ‘the effect of uncertainty on objectives’

November 2022

SOUTHAMPTON CITY COUNCIL

Risk Management – Annual Report 2022

The purpose of this report is to provide assurance to the Governance Committee that the council has in place effective risk management arrangements and that key risks are being managed and monitored appropriately. This reflects the responsibilities of the Committee as set out in the Terms of Reference:

- *" To provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment…"*
- *"To be satisfied and provide assurance that appropriate action is being taken on risk and internal control related issues…"*

*This report is split into two main sections – **Section A** which provides a summary of the framework and overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk and **Section B** which summarises the range of risk management activities that have been undertaken within the 12 month period.*

ROLES AND RESPONSIBILITIES

The council's Risk and Insurance Service, which is part of Financial Planning and Management, is responsible for:

- Facilitating the continuing development of the council's risk management arrangements including developing appropriate guidance and information.
- Supporting services in the management of operational and strategic risk.
- Facilitating and supporting the 'Finance, Commercialisation and Performance Board' in respect of the identification, management, and review of the council's key strategic risks.
- Arranging appropriate risk financing measures and providing advice and guidance on the extent of insurance or self-insurance arrangements.
- Where appropriate, arranging the placement of cover with insurers including the negotiation of premium rates and policy terms.

SECTION A – RISK MANAGEMENT FRAMEWORK

The risk management framework comprises the overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk. The key components of this framework are:

- ### Risk Management Policy

This provides an overview of the operating framework, arrangements, and responsibilities for managing risk and is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. This policy, which is published on the council intranet, is subject to annual review and update as necessary.

- ### Strategic Risk Register

The Strategic Risk Register is a key document in terms of identifying, assessing, and managing the council's key strategic risks. The Strategic Risk Register is developed and managed in consultation with the 'Finance, Commercialisation and Performance Board' and individual Executive Directors. The Strategic Risk Register is updated and reviewed on a quarterly basis by the Board with new or emerging risks considered.

- ### Corporate Report Templates

The council's standard corporate report template, briefing template and EMB report template all include a 'Risk Management' section that requires a report author to consider and provide the 'decision taker/recipient' with relevant and proportionate information regarding the risks associated with the project, topic or initiative that is the subject of the report.

- **Project and Programme Risk Management**

The need to identify and manage risk runs throughout the project and programme management process with 'Risks, Assumptions, Issues, Dependencies ('RAID') Logs' embedded as part of project management governance. Template documents and associated guidance is available to assist both project managers and project sponsors/boards in understanding the importance of understanding and managing risk.

- **Partnerships**

All key service delivery partnerships (such as the Highways Service Partnership with Balfour Beatty Living Places) and major contracts have risk registers in place which are jointly reviewed with the supplier and includes any 'shared risk'. There is also guidance on the intranet in respect of managing risk in respect of non-commercial partnership working.

- **Medium Term Financial Forecast**

A 'Key Financial Risks' document identifies the key risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and/or planned which is reviewed on a quarterly basis as part of financial monitoring.

- **Business Planning**

An annual business planning process is in place whereby plans are developed and reviewed to ensure that they reflect the key service delivery priorities and outcomes. Service Business Plans provide an overview of the services, the outcomes (and outputs) and actions or changes required to ensure delivery. The corporate business planning template includes a section on 'risk' which recognises the importance of services identifying and understanding the risks that may threaten or adversely impact delivery of their key priorities and outcomes.

- **Internal Audit**

Internal audit plays a vital role in advising the council that arrangements in relation to governance, risk and internal control are in place and operating effectively. Response to internal audit activity should lead to the strengthening of the internal control environment. The annual 'Internal Audit Plan' is informed by the council's Strategic Risks together with discussions with individual Executive Directors and EMB.

- **Fraud Risk Management**

An Anti-Fraud, Bribery and Corruption Policy is published on the intranet and applies to all employees, elected members and others who work for or on behalf of the Council. Internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets.

- **Operational Risk Management**

The management of 'day to day' or 'operational risk' is the responsibility of individual service areas with support and guidance being provided by Risk and Insurance Services as required including, where necessary, access to specialist advice.

SECTION B - RISK MANAGEMENT ACTIONS AND INITIATIVES : Nov 2021- 2022

- **Quarterly reviews of the Strategic Risk Register**

The council's Strategic Risk Register was reviewed by the Finance, Commercialisation & Performance Board at End Q3 2021-22 (Jan 22), End Q4 2021-22 (May 22), End Q1 2022-23 (Sept 22) and End Q2 2022-23 (Nov 22). This Board, which comprises all members of EMB, receives a report in respect of the status of the council's Strategic Risks and information on any new or emerging risks for discussion.

The End Q1 22-23 review also included a summary of the 'Strategic Risk Registers' for those comparable councils who are members of the 'Key Cities' group. This was to enable the Board to consider how the council's strategic risks compare or contrast to those identified by other similar sized councils.

See Appendix 2 which is a summary of the Strategic Risks as at End Q2 2022-23.

- **External review of the Strategic Risk Register and Risk Management Policy** [Planned Action on 2021 Report]

A 'risk management consultant' from the council's liability and property insurers undertook a review of both the Strategic Risk Register and the council's Risk Management Policy. The purpose of the review, undertaken at no cost to the council, was to ensure that both are aligned with good practice and remain fit for purpose. The recommendations were considered and implemented as appropriate.

- **Revised and updated 'Risk Management Policy 2022/23-24/25'**

The council's previous Risk Management Policy was review and refreshed to ensure that it remains fit for purpose and aligned with the needs and business processes of the council. This policy provides an overview of the framework, arrangements, and responsibilities for managing risk within and across the Council. It is intended to assist officers, at all levels, in applying sound risk management principles, practices across their areas of responsibility.

- **Organisational risk management exercises**

Risk management is increasingly being used to assess the organisational impacts and risks to the council and its services arising from unforeseen events, for example the:

  - Afghan refugee resettlement
  - Conflict in Ukraine
  - Cost of Living Crisis

In each case, the Risk & Insurance Team collated and drafted the key risks and impacts which were then subsequently used by cross council officer groups to better understand the issue and to inform subsequent actions.

- **ALARM National Risk Management Awards 2022 – Runner up**

The Council was shortlisted as a finalist in two categories ('Operational Risk' and 'Resilience Planning') of the ALARM Annual Risk Management awards. The award submission, made by council's 'Risk & Insurance Team and in collaboration with Property Services, referred to the significant programme of works that the council has undertaken in improving fire safety within its housing properties and, in particular, the retrofitting of sprinkler systems in the high rise housing blocks. ALARM is a national organisation with over 900 members within local government, blue light, education, housing and central government departments and agencies, and provides training, guidance and best practice, networking, and industry recognition for excellence across risk management.

- **Housing – Fire Safety**

The council's housing fire safety works programme, led by Property Services, continues. This programme has seen sprinklers installed into all 19 high rise housing blocks and over 2,400 accredited fire doors and frames fitted, as well as a range of associated passive fire safety works around fire stopping and compartmentation. Although the initial focus was on the high rise blocks there is an ongoing programme to replace fire doors and improve fire stopping in medium and low rise blocks which is being progressed on a risk based approach. Insurers have been kept informed of the actions being taken and, from a loss control perspective, recognise the benefits.

- **Representation on internal management boards**

The Risk & Insurance Manager is a member of the following Management Boards and is able to ensure that risk management issues are able to be raised and given proper consideration:

  - Information Governance Board
  - Health & Safety Board
  - Fire Safety Programme Board
  - Emergency Preparedness, Resilience and Response Board

- **Property Sums insured review programme** [Planned Action on 2021 Report]

An exercise, led by Property Services, was undertaken to review the approach in respect of the periodic review of the adequacy of property sums insured and also to take account of insurers expectations. An exercise has commenced to review of the sums insured of a selected number of properties with the expectation that a formal rolling programme will be developed and implemented.

- **Contracts – Indemnity and Insurance Clauses training** [Planned Action on 2021 Report]

A 'Contract - Insurance Terms and Clauses' training session was developed and presented to colleagues in the Supplier Management Team, Integrated Contracts Unit, Legal (Contracts Team) and Property Services. The sessions, which were intended to provide participants with 'a better understanding of insurance and indemnity clauses in contracts and their significance' were well received with over 65 participants attending the sessions that were held in January and September 2022.

- **Grounds Maintenance Depots – Security Surveys**

Following the theft of some Grounds Maintenance equipment and other incidents of vandalism and trespass, a security survey of the three depots was undertaken in conjunction with insurers. Recommendations arising out of the survey are to be considered by the service area.

- **Guidance and advice**

A range of guidance and advice was issued or published on the intranet including:

  - A note to the council's Leadership Group regarding information governance and data breach claims with a separate communication to schools
  - A 'Keeping you and your vehicle safe' bulletin, issued via Fleet Transport, to drivers of council commercial vehicles including a reminder not to leave a vehicle unlocked and unattended, and the importance of ensuring that the driver is aware of the type of handbrake on the vehicle and how it works
  - Input in the development of new, or refreshed, corporate guidance (e.g. Health and Safety, HR etc) from a risk management and insurance perspective.

- **Risk Financing - review of self-insurance fund**

An external periodic review of the council's 'Self-Insurance Find' was commissioned in order to assess the adequacy of the council's 'self-insurance' fund in terms of being able to meet current and future claims that fall within the insurance policy excesses (Liability claims below £125k, Property Claims below £40k and Motor Claims below £25k are all met from this fund). The review, undertaken via a specialist division of the council's insurance broker Marsh, used various actuarial and statistical methods to assess the adequacy of the fund, with the subsequent report then used to inform decisions regarding future funding requirements.

- **Solent Unitaries Insurance Group**

Peer group meetings were held with colleagues from Portsmouth City Council, Isle of Wight Council and Bournemouth, Christchurch & Poole Council to share and discuss risk and insurance issues. The SCC Risk & Insurance Manager has chaired these meetings which have covered a range of subjects including:

  - Insurance market insight
  - Insurance programmes and renewal terms
  - Covid risk and insurance issues
  - Hybrid Working
  - New or emerging claim trends

NEW RISK MANAGEMENT ACTIVITES PLANNED OR BEING CONSIDERED

[**Note**: The following may need to be reprioritised or reconsidered subject to the business need]

- **Loss Reporting**

  The existing insurance claims handling system has recently been upgraded which includes improved functionality in terms of loss reporting and analysis. Further work will be undertaken with key service areas in terms of how the insurance claims loss data may be used to inform their working practices.

- **Training – Insurance and Risk**

  Look to develop further in-house operational risk management training sessions following on from the 'Contract – Indemnity and Insurance Clauses' training which was well received.

- **Property Sums Insured reviews**

  Continue to work with Property Services in terms of the development of a consistent and sustainable approach to periodic review of property sums insured.

For further information please contact Peter Rogers, Risk & Insurance Manager 023 8083 2835 or insurance@southampton.gov.uk by virtue of paragraph number 5 of the Council's Access to information Procedure Rules

Appendix 2

Document is Confidential

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