AUDIT AND STANDARDS COMMITTEE

THURSDAY 13TH FEBRUARY 2014

AT 6.00PM
IN COMMITTEE ROOM 3
THE COUNCIL HOUSE
DUDLEY

If you (or anyone you know) is attending the meeting and requires assistance to access the venue and/or its facilities, could you please contact Democratic Services in advance and we will do our best to help you

KAREN TAYLOR
DEMOCRATIC SERVICES OFFICER
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You can view information about Dudley MBC on www.dudley.gov.uk/

Dudley
Metropolitan Borough Council

IMPORTANT NOTICE

MEETINGS IN DUDLEY COUNCIL HOUSE

Welcome to Dudley Council House

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There is to be no smoking on the premises in line with national legislation. It is an offence to smoke in or on these premises.

Please turn off your mobile phones and mobile communication devices during the meeting.

Thank you for your co-operation.

Directorate of Corporate Resources

Law and Governance, Council House, Priory Road, Dudley, West Midlands DY1 1HF
Tel: (0300 555 2345)
www.dudley.gov.uk

Dudley
Metropolitan Borough Council

Your ref:	Our ref:	Please ask for:	Telephone No.
	KT/kt	Mrs K Taylor	01384 818116

5th February, 2014

Dear Member

Audit and Standards Committee – Thursday 13th February, 2014.

You are requested to attend a meeting of the Audit and Standards Committee to be held on Thursday 13th February, 2014 at 6.00pm in Committee Room 3 at the Council House, Dudley to consider the business set out in the Agenda below.

The agenda and public reports are available on the Council's Website www.dudley.gov.uk and follow the links to Councillors in Dudley and Committee Management Information System.

Yours sincerely

Director of Corporate Resources

A G E N D A

1 APOLOGIES FOR ABSENCE

To receive apologies for absence from the meeting.

2. APPOINTMENT OF SUBSTITUE MEMBERS

To report the appointment of any substitute members serving for this meeting of the Committee.

3. DECLARATIONS OF INTEREST

To receive Declarations of Interest in accordance with the Members' Code of Conduct.

Director of Corporate Resources: Philip Tart, LLB (Hons), Solicitor
Assistant Director Law and Governance: Mohammed Farooq , LL.B. (Hons), Barrister

4. MINUTES

To approve as a correct record and sign the Minutes of the meeting of the Committee held on 10th December, 2013 (copy attached).

5. GRANT THORNTON – FEE LETTER 2013/14 (PAGES 1 - 6)

To consider a report of the Treasurer

6. GRANT THORNTON REPORT – GRANT CERTIFICATION WORK 2012/13 (PAGES 7 - 21)

To consider a report of the Treasurer

7. RISK MANAGEMENT (PAGES 22 - 40)

To consider a report of the Treasurer

8. TREASURY MANAGEMENT (PAGES 41 - 57)

To consider a report of the Treasurer

9. TO ANSWER QUESTIONS UNDER COUNCIL PROCEDURE RULE 11.8 (IF ANY)

<u>PRIVATE SESSION</u>

In accordance with Paragraph 10 of Schedule 12A to the Local Government Act 1972, the Proper Officer has determined that there will be no advance disclosure of the following reports because the public interest in disclosing the information set out in the following items is outweighed by the public interest in maintaining the exemption from disclosure

10. RESOLUTION TO EXCLUDE THE PUBLIC

To consider the adoption of the following resolution:-

That the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A to the Local Government Act 1972 as indicated below:-

Agenda Item No	Description of Item	Relevant Paragraph(s) of Part I of Schedule 12A
11	Audit Services Interim Performance Report	2 and 7
12	Annual Report in Relation to the Directorate of Children's Services	2 and 7

11. AUDIT SERVICES INTERIM PERFORMANCE REPORT (PAGES 58 - 70)

    To consider a report of the Treasurer

12. ANNUAL REPORT IN RELATION TO THE DIRECTORATE OF CHILDREN'S SERVICES (PAGES 71 - 103)

    To consider a report of the Treasurer

To: All Members of the Audit and Standards Committee, namely:

Arshad	Cowell	Harris	Mrs. P. Martin	Russell
Taylor	K. Turner	Tyler	C. Wilson	

AUDIT AND STANDARDS COMMITTEE

Tuesday 10th December, 2013 at 6.00 p.m.
in Committee Room 3, The Council House, Dudley

PRESENT:-

Councillor Cowell (Chair)
Councillor Arshad (Vice-Chair)
Councillors Harris, Hill, J. Martin, Taylor, Tyler and C Wilson

Officers

Treasurer, Head of Audit Services, Assistant Director, HR and Organisational Development, Assistant Director of Corporate Resources (Directorate of Corporate Resources); Director of the Adult, Community and Housing Services, Assistant Director of Housing Services, Review & Improvement Consultant (Directorate of Adult, Community and Housing Services); Audit Managers, Principal Auditor and Mrs K Taylor (Directorate of Corporate Resources).

Also in Attendance

Mr. S. Turner (Manager) (Grant Thornton)
Ms. S. Joburns (Grant Thornton)

28. APOLOGY FOR ABSENCE

An apology for absence from the meeting was submitted on behalf of Councillor Russell.

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29. APPOINTMENT OF SUBSTITUTE MEMBER

It was reported that Councillor J Martin had been appointed as substitute member for Councillor Russell for this meeting of the Committee only.

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30. DECLARATIONS OF INTEREST

Councillor Cowell declared a non-pecuniary interest, in accordance with the Members' Code of Conduct, in Agenda Item 8 – Review of current Corporate Risks and Corporate Risk Scrutiny, in view of her being a Dudley Council tenant.

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31. MINUTES

RESOLVED

That the minutes of the meeting held on 19th September, 2013, be approved as a correct record and signed.

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32. GRANT THORNTON AUDIT AND STANDARDS COMMITTEE UPDATE

A report of the Treasurer was submitted on a report published by Grant Thornton updating members on progress in delivering their responsibilities as Dudley's external auditors. A list of the questions that Grant Thornton believed Audit and Standards Committee members should consider and the management responses were included in the report submitted. A copy of the full report was appended to the report submitted.

It was noted that Ms Joburns, Grant Thornton, who was in attendance at the meeting, would replace Mr Turner as Audit Manager, as Mr Turner would be moving to another audit. Members expressed their thanks and best wishes to Mr Turner.

Ms Joburns then presented the report and appendix to the report submitted and commented in particular that the purpose of the report was to report progress and highlight emerging national issues.

Ms Joburns further reported that the audit was on track, and that a further report would be submitted to a future meeting of the Committee.

RESOLVED

That the information contained in the report, and Appendix to the report, submitted on an Audit and Standards Committee Update published by the Grant Thornton, be noted.

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33. ANNUAL AUDIT LETTER 2012/13

A joint report of the Chief Executive and the Treasurer was submitted on the External auditor's annual Audit Letter for 2012/13. A copy of the letter was appended to the report submitted.

Mr S Turner, Audit Manager, presented the report and Appendices to the report submitted, and issued an unqualified opinion.

Arising from the presentation of the report and Appendices to the report, submitted Mr Turner responded to questions asked and with regard to queries raised by members regarding Grant Thornton attending Cabinet in February, 2014 to discuss key messages, conclusions and significant issues, and the possibility of issuing early warnings in relation to any significant changes in respect of Value for Money.

RESOLVED

That the information contained in the report, and Appendices to the report, submitted on the Annual Audit Letter 2012/13 be noted.

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34. ANNUAL REPORT OF THE COMMITTEE ON STANDARDS IN PUBLIC LIFE 2012/13

A report of the Monitoring Officer was submitted on the annual report of the Committee on Standards in Public Life 2012/13.

Arising from the presentation of the report and Appendix to the report, submitted, the Treasurer made particular reference to the comments on Local Government Standards arising from the introduction of the new standards regime under the Localism Act 2011.

RESOLVED

That the Annual Report of the Committee on Standards in Public Life, attached as Appendix 1 to the report submitted, be noted.

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35. REVIEW OF CURRENT CORPORATE RISKS AND CORPORATE RISK SCRUTINY

A report of the Treasurer was submitted on current corporate risks, as most recently reviewed by the Corporate Board, and to provide closer scrutiny of the Council's corporate risk – Risk ORG0017 – Welfare Reforms – that was identified for consideration by the Committee at a previous meeting.

The Assistant Director of Housing and the Assistant Director of Corporate Resources gave a power point presentation in relation to the background of Welfare Reforms, corporate risks and mitigating actions.

The Assistant Director of Housing reported to the Committee that the introduction of Universal Credit had been delayed, and referred to the change of remit of the Welfare Reform Project Board in order to provide a more corporate focus to ensure that the corporate agenda would be delivered.

The Assistant Director of Corporate Resources referred to Discretionary Housing Payments advising that these were discretionary awards used to cover the shortfall between Housing Benefit and the full rent.

It was anticipated that the Governments contribution to the 2013/14 scheme would be spent by March, 2014, and that there were additional funds available should there be any overspend. Any monies that were under spent would be returned to the Government.

The Assistant Director of Corporate Resources reported on the Local Welfare Assistance Scheme, advising that the Department for Work and Pensions responsibility for the discretionary elements of the social fund had been transferred on 31st March, 2013, and was now administered by the Council.

Reference was made to the types of awards made including food, energy and furniture, the various partnerships involved, the corporate risk in relation to the Council Tax Reduction scheme and that Government funding for the scheme was currently only guaranteed for a period of two years.

Reference was also made to the work undertaken by the Adult, Community and Housing Services Scrutiny Committee.

The Assistant Director of Housing referred to the increase in rent arrears arising from the introduction of the benefit cap, and that it was unlikely that repossession could be avoided. She reported on the emerging trends, including the cases where some tenants have left their property without warning due to them being unaffordable, and the high and competing demands for one bedroom stock and two bedroom houses.

It was further noted that the Cabinet Member for Housing/Community Safety had fully evaluated the potential to remodel existing stock and the reclassification of properties.

The impact on Dudley in respect of the provision of bad debt in relation to rent arrears was approximately £2million, which had increased compared to the figures during quarter two in 2012/13 and 2013/14.

Reference was made to partnership working, in particular, the introduction of “Jam Jar accounts” by Castle and Crystal Union that allowed tenants to earmark part of their income in order to pay for services such as rent, that could not be accessed and therefore reducing the risk of arrears. It was further reported that Adult Learning was running a “Live for Less” course to aid people to plan and budget their money, and further work required to help vulnerable adults.

The Assistant Director of Housing reported on the impacts resulting from Welfare Reforms to Statutory Service areas, including areas such as the potential increase in homelessness.

Arising from the presentation, Members asked a number of questions and the Assistant Director of Housing and The Assistant Director of Corporate Resources responded as follows:-

- In relation to monitoring private Landlords, it was reported that Private Sector Housing would investigate any issues or complaints raised, and that there were an increasing number of Landlords who would contact the service to ascertain advice and to report any concerns that they may have in respect of other private Landlords. There were also a number of actions and orders that could be imposed if necessary. Recent publications also identified that the number of private Landlords that accepted people on benefits was declining.
- That there were a number of cases that were awarded Discretionary Housing Payments, and that income officers had been chasing the recovery of rent arrears, however it was evident that some tenants had difficulty repaying. Should there be a possibility of court proceedings, advice would be given in an attempt to prevent this.
- That should a tenant become homeless, then they would be re-assessed for a property under the homelessness policy.
- The Assistant Director of Housing undertook to provide Councillor Arshad with comparison data in relation to rent arrears in other Local Authorities.
- That 70% of Discretionary Housing Payments were awarded to Council tenants, however these were currently limited to two per year per applicant, albeit this was now being extended to three per year. Dependent on their circumstances there were discretionary powers to extend if necessary. The calculations in order to reach a decision for the awards were primarily based on income, savings and the areas in which the recipient would need the grant.
- That any under spend in relation to the Welfare Assistance Scheme would not be ring-fenced, therefore allowing the money to be placed back in to the Council's budget.
- The figures from the Department for Work and Pensions in relation to the number of people who had been assisted had shown a downward trend. Reference was also made to the high volume of Crisis Loans and the Community Care grant scheme.
- That the Welfare Assistance Scheme projected spend for 2013/14 would be £200k (maximum).
- Concerns were raised in regard to the confusion to tenants who did not understand the system.
- An amendment had been introduced to a policy for those who could exchange with rent arrears in order to assist with people moving into alternative accommodation.
- That should additional funds be required in terms of the Discretionary Housing Payments, this could be met from the Housing Revenue Account for Council Tenants only.
- That the Council were investigating methods of regenerating the housing stock that they already had.

During his presentation of the content of the report, and Appendix 1 to the report submitted, the Treasurer referred, in particular, to the Committee giving consideration to identifying and scrutinising a specific risk from those shown in the Appendix for consideration when the Committee next considered the issue of corporate risks at its meeting in February, 2014.

Following further discussion it was

RESOLVED

(1) That the information contained in the report, and Appendix 1 to the report, submitted on current corporate risks, be noted.

(2) That the risk ORG0017 - Welfare Reforms and associated controls, be noted.

(3) That the risk ORG0002 - Budget - be the particular risk identified for closer scrutiny the next time a risk report was referred for consideration by the Committee, on 13th February, 2014.

(4) That the risk ORG0003 – Carbon Reduction – be presented as an information item, together with risk ORG0002, for consideration by the Committee, on 13th February, 2014.

(5) That a progress report in relation to risk ORG0017 – Welfare Reforms – be referred for consideration by the Committee in April 2014.

(6) The Assistant Director of Housing be requested to provide Councillor Arshad with comparison data in relation to rent arrears in other Local Authorities.

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36. AMENDMENT OF STANDING ORDERS

A report of the Treasurer was submitted on the proposed amendments to Council and School Standing Orders.

Arising from the presentation of the report and Appendix to the report, submitted, the Head of Audit Services made particular reference to the promotion of the Corporate Procurement Manual, that would be a more efficient and effective way of staff obtaining guidance.

RESOLVED

(1) That the proposed amendments to Council and School Standing Orders, attached as Appendix 1 to the report submitted, be approved.

(2) That the Treasurer be authorised to make minor amendments if wider consultation identifies any changes prior to 1st April, 2014.

37. EXCLUSION OF THE PUBLIC

That the public be excluded from the meeting for the following items of business on the grounds that they involve likely disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act, 1972, as indicated below; and that in all the circumstances, the public interest in disclosing the information is outweighed by the public interest in maintaining the exemption from disclosure.

Description of Item	Relevant Paragraphs of Part I of Schedule 12A
Suspensions under the Provisions of the Employee Improvement and Disciplinary Procedure	1
Annual Audit Report in relation to the Directorate of Adult, Community and Housing Services	2 and 7

38. SUSPENSIONS UNDER THE PROVISIONS OF THE EMPLOYEE IMPROVEMENT AND DISCIPLINARY PROCEDURE.

A report of the Director of Corporate Resources was submitted on the numbers of employees who were suspended pending an investigation into allegations of gross misconduct during the financial year 2012/13, and April 2013 to September 2013, in comparison with the previous years information.

Arising from the presentation of the report submitted and the asking of questions by Members, the Assistant Director HR and Organisational Development undertook to provide Councillor Taylor with supplementary information in relation to ongoing investigations.

Following further discussion it was

RESOLVED

That the information contained in the report submitted be noted and that the Assistant Director HR and Organisational Development be requested to provide supplementary information to Councillor Taylor in relation to ongoing investigations.

39. ANNUAL AUDIT REPORT IN RELATION OF THE DIRECTORATE OF ADULT, COMMUNITY AND HOUSING SERVICES

A report of the Treasurer was submitted on the audit work undertaken in the Directorate of Adult, Community and Housing Services for the financial year 2012/13 and incorporating details of the more important findings as indicated in Appendices 2 and 3 to the report submitted.

Arising from consideration of the report, and Appendices to the report, submitted Members asked a number of questions and made comments which were responded too, in particular in respect of the management responses highlighted in the report.

RESOLVED

That the findings of the 2012/13 audit work be accepted.

The meeting ended at 8.15 p.m.

CHAIR

Dudley
Metropolitan Borough Council

Agenda Item No. 5

Audit and Standards Committee – 13th February 2014

Report of the Treasurer

Grant Thornton - Fee Letter 2013/14

Purpose of Report

1. This report sets out the planned audit fee for 2013/14 by the Council's external auditor, Grant Thornton. Attached are their Audit fee letters and a representative from Grant Thornton will be available at the meeting to deal with any issues.

Background

2. As Members will be aware from previous reports, the Audit Commission transferred its in-house audit practice to the private sector by outsourcing through a procurement exercise.

3. Grant Thornton, one of the big accountancy firms, were appointed to audit all local authorities in the Midlands from 1st November 2012. This followed a tender exercise run by the Audit Commission. The appointment started with the 2012-13 audit year and runs for at least three more years. The procurement of external audit services secured savings which were reflected in our audit fee for 2012/13.

4. In addition to their work on the Council's accounts and financial systems, the External Auditors carry out Value for Money (VFM) work and the Whole of Government accounts. Outline proposals for the work to be carried out and the fees to be charged are set out below:-

   - The Annual Audit Fee Letter 2013/14 is attached as Appendix 1. This sets out work to be carried out in accordance with the Code of Audit Practice and in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies
   - The letter shows a freeze in the main audit fee of £177,178. The indicative fee for grant certification has been reduced from £41,000 in 2012/13 to £32,500 for 2013/14 this is shown in Appendix 2

Finance

5. The Council has made revenue budget provision for the annual audit fee, inspection fees and grant audits. It is anticipated that any costs arising from the above audit work will be met from within existing resources.

Law

6. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1999, the Audit Commission Act, 1998, and regulations made therein.

Equality Impact

7. There are no direct implications for children and young people.

Recommendation

8. That Members note the Grant Thornton fee letters attached to this report.

....

Iain Newman
Treasurer

Contact Officer: Jan Szczechowski
Telephone 01384 814805
Email: Jan.Szczechowski@dudley.gov.uk

Grant Thornton

KB/ST/D09000013/L5

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22 March 2013

Dear Iain

Planned audit fee for 2013/14

The Audit Commission has set its proposed work programme and scales of fees for 2013/14. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as "the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes."

The Council's scale fee for 2013/14 has been set by the Audit Commission at £178,177 which compares to the audit fee of £178,177 for 2012/13.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-work-programme.

The audit planning process for 2013/14, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and a separate report of our findings will be provided.

Certification of grant claims and returns

The Council's composite indicative grant certification fee has been set by the Audit Commission at £41,000.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2013	44,545
December 2013	44,544
March 2014	44,544
June 2014	44,544
Grant Certification	
June 2014	41,000
Total	**219,177**

Outline audit timetable

We will undertake our audit planning and interim audit procedures in January to April 2014. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in September 2014 and work on the whole of government accounts return in September 2014.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January to April 2014	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to September 2014	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.

VfM conclusion	January to September 2014	Audit Findings (Report to those charged with governance)	As above
Financial resilience	January to September 2014	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2014	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2014	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2014	Grant certification report	A report summarising the findings of our grant certification work

Our team
The key members of the audit team for 2013/14 are:

	Name	Phone Number	E-mail
Engagement Lead	Kyla Bellingall	0121 232 5359	kyla.bellingall@uk.gt.com
Engagement Manager	Simon Turner	0121 232 5273	simon.a.turner@uk.gt.com
Audit Executive	Pik Ling Ho	0121 212 5324	pik.ling.ho@uk.gt.com

Additional work
The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance
We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner (jon.roberts@uk.gt.com).

Yours sincerely

Kyla Bellingall
For Grant Thornton UK LLP

Appendix 2

Grant Thornton

An instinct for growth™

KB/ST/D09000013/L7

Mr Iain Newman
Treasurer
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17 April 2013

Dear Iain

Planned grant certification fee for 2013/14

Further to my earlier letter, the Audit Commission have subsequently issued revised indicative fees for grant certification, revising the estimate from £41,000 to £32,500. As a result, I set out a revised billing schedule below.

Billing schedule

Fees will be billed as follows:

Main Audit fee	**£**
September 2013	44,545
December 2013	44,544
March 2014	44,544
June 2014	44,544
Grant Certification	
June 2014	32,500
Total	**210,677**

If you have any further queries in respect of this letter please do not hesitate to contact me or Simon Turner.

Yours sincerely

Kyla Bellingall

Kyla Bellingall
For Grant Thornton UK LLP

Agenda Item No. 6

Audit and Standards Committee – 13th February 2014

Report of the Treasurer

Grant Thornton Report: Grant Certification Work 2012/13

Purpose of Report

1. The External Auditor's Annual Report on Certification of Claims and Returns for 2012/13 is attached and representatives from Grant Thornton will be available at the meeting to deal with any issues.

Background

2. As from 1 November 2012, the Council's external auditor is Grant Thornton. The external auditor undertakes a range of audits.

4. For 2012/13, the External Auditors undertook work to certify council grant claims and returns totalling £243m. Their Annual Report on that work is attached as an Appendix. The report outlines issues arising from their work and makes a couple of recommendations for the Council's grant claiming processes.

5. Auditors are required to conduct their work in accordance with instructions agreed with the grant awarding department or body and, subject to any permitted discretion, to issue qualifications where the strict grant conditions are not met. The vast majority of qualifications do not result in any withdrawal of grant by the awarding department or body

Finance

6. Grant charged fees for grant certification work for 2012/13 of £34,148 which is less than the indicative fee as detailed in Appendix C in the Report.

Law

7. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1999, the Audit Commission Act, 1998, and regulations made therein.

Equality Impact

8. A number of the grants that the Council receives are for activities benefiting children and young and disadvantaged sections of the community.

Recommendation

9. That Members note and comment on the External Auditor's Annual Report on Certification of Claims and Returns for 2012/13 attached to this report.

………………………….. …
Iain Newman
Treasurer

Contact Officer: Jan Szczechowski
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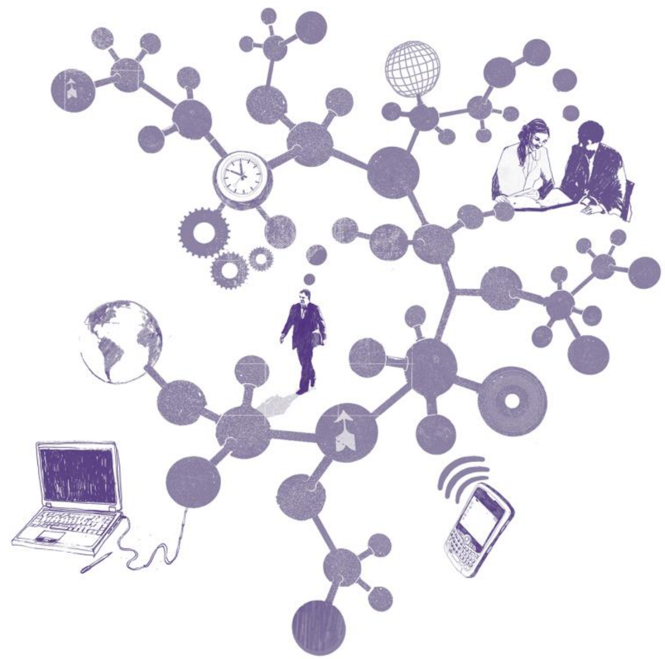
Email: jan.szczechowski@dudley.gov.uk

List of Background Papers
Certification of claims and returns – annual report 2012/13

Certification report 2012/13
for Dudley Metropolitan Borough Council

Year ended 31 March 2013

January 2014



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Contents

Section 1: Executive summary

Executive summary

Introduction

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

We have certified four claims and returns for the financial year 2012/13 relating to expenditure of £243 million.

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

Approach and context to certification

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

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in July 2013.

Key messages

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

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	All claims and returns were submitted on time and all claims were certified within the required deadline	
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	Overall the Council is performing well. In respect of the housing and council tax benefit scheme, the Council needs to continue to try to minimise errors made in the calculation of benefit and classification of benefit payments on the claim form. The Council also needs to ensure that the teachers' pension return is not submitted for certification until senior finance officers are satisfied that it agrees to payroll records.	

The way forward

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

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

Acknowledgements

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

Grant Thornton UK LLP
January 2014

Section 2: Results of our certification work

Results of our certification work

Key messages

We have certified four claims and returns for the financial year 2012/13 relating to expenditure of £243 million.

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

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	4	100	7	100	↔
Claims certified on time	100%	4	100	7	100	↔
Claims certified with amendment	0%	2	50	4	57	↑
Claims certified with qualification	0%	1	25	2	28	↑

This analysis of performance shows that the Council continues to submit claims on time and have them certified on time. The percentage of claims that were certified with amendment or qualification has fallen compared to the previous year.

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

Significant findings

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

Grants co-ordination

The Corporate Finance Team continues to co-ordinate the submission of claims and returns in an effective manner. All claims and returns were submitted for certification on time.

Compilation procedures

Claims and returns are generally well compiled but improvements are needed in respect of the teachers' pension return and the housing and council tax benefit claim. This is detailed further overleaf.

Results of our certification work

Certification of teachers' pension return

The certificate issued on the teachers' pension return was unqualified but a number of adjustments needed to be made to it before it could be certified. These adjustments were needed because the original claim submitted for certification did not agree to the Council's payroll records and to other supporting working papers. Similar issues in respect of this return have been reported in previous years. The Council made changes to its internal arrangements for preparing the return in 2012/13 and the number of issues identified by our work decreased compared to the previous year as a result. The Council should ensure that the teachers' pension return for 2013/14 is not submitted for certification until senior officers are satisfied that it agrees to the Council's payroll records.

Certification of housing and council tax benefit claim

The housing and council tax benefit claim was qualified because of a range of errors found in the calculation of benefit and classification of benefit payments on the claim form. The Council has estimated that this should not have a significant impact on the total amount of subsidy due but this will not be confirmed until the Department for Work and Pensions considers the qualifications on the Council's claim and determines the total amount of subsidy to be paid for 2012/13. There were similar findings in respect of previous claims and the Council undertook to provide further training to benefits staff to ensure that errors were reduced. The Council should continue to provide this training to staff.

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

Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £41,000. This fee has been reduced to £34,148 because, compared to 2010/11, the number of claims to be certified has fallen and less testing was required in respect of the housing and council tax benefit claim. This reduced fee is subject to confirmation by the Audit Commission and, if it subsequently changes, we will confirm this to you.

Appendices

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

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?
Housing and council tax benefit scheme	125,509,225	Yes	(479)	Yes
National non-domestic rates return	90,209,958	No	n/a	No
Teachers' pension return	19,448,014	Yes	489	No
Pooling of housing capital receipts	7,950,368	No	n/a	No

Appendix B: Action plan

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Management should continue to undertake training of benefits staff to ensure that errors in the calculation of benefit and classification of benefit payments on the claim form are minimised.	Medium	A matrix of common errors detected during the audit will be compiled and forwarded to the Benefits Training Team Leader in order for the appropriate guidance and training to be provided to staff”	Responsible officer – Deputy Head of Benefits Implementation date – 1/4/14
2	The Council should ensure that the teachers' pension return for 2013/14 is not submitted for certification until senior officers are satisfied that it agrees to the Council's payroll records.	Medium	Major changes to the structure of the Teacher’s Pension scheme and to the format of the pensions return were the main reasons why the return had to be amended. Changes have been made to the process for compiling the return to prevent this issue recurring. In future, additional checks will be made by the Group Accountant (Corporate Finance & Systems) to the return to reconcile it to the payroll system.	Responsible officers – Group Accountant (Corporate Finance & Systems) & Payroll Manager

Appendix C: Fees

Claim or return	2011/12 fee (£) *	2012/13 indicative fee (£)	2012/13 actual fee (£)	Variance (£)	Explanation for significant variances
Housing and council tax benefit scheme	23,133	21,920	19,928	(1,992)	Less testing was needed in respect of this claim compared to 2010/11 which was what the 2012/13 indicative fee was based on
National non-domestic rates return	6,920	6,440	6,440	0	
Teachers' pension return	8,779	6,600	6,600	0	
Pooling of housing capital receipts	4,325	1,180	1,180	0	
Local transport plan: major projects (Brierley Hill Sustainable Access Network and Burnt Tree)	3,905	4,860	0	(4,860)	Certification of these claims was not required in 2012/13 as the amounts claimed were below the minimum value for certification
Total	47,062	41,000	34,148	(6,852)	

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

Agenda Item No. 7

Audit and Standards Committee - 13th February 2014

Report of the Treasurer

Risk Management

Purpose of Report

1. To update members on current Corporate Risks and other matters relating to risk management.

2. To provide information relating to particular corporate risks as previously selected by this Committee.

3. To approve the Risk Management Strategy for 2014/15.

Background

4. At its meeting of the 25th April 2013, this Committee requested it should receive details of Corporate Risks three times per annum. Accordingly, this report constitutes the third such report.

Corporate Risks

5. Appendix 1 shows details of Corporate Risks (as reviewed by Corporate Board on the 28th January 2014) and therefore those appearing at the highest level on the Council's risk register. In simple terms, these risks are generally acknowledged as being the most significant facing the Council, impacting upon at least one or several of Council's key objectives.

6. Corporate Board also receives reports on Corporate Risks at least 3 times per annum and in addition, all Directors continue to review Directorate risks on a quarterly basis which form part of the Quarterly Corporate Performance Report.

7. In addition to risks tabled in Appendix 1, it is acknowledged that this Committee may identify any additional risks that it considers should form part of the Corporate Risks list.

8. At its last meeting on 10th December 2013, this Committee agreed to scrutinise risk ORG0002 relating to the budget. The Treasurer will present to the Committee

on this risk. The Committee also asked for further information about ORG0003 relating to Carbon Reduction. This information is in Appendix 2.

Risk Management Strategy

10. The Risk Management Strategy and guidance has been reviewed and is attached as Appendix 3.

Other matters relating to Risk Management

11. Municipal Mutual Insurance (MMI) was the insurer of many local authorities (including Dudley) until 1993. MMI has declared that it is unable to meet its anticipated future liabilities and therefore the so called '*clawback'* scheme has been triggered. In October 2013, a percentage levy of 15% was issued and this will become payable in late January 2014. An accrual of £0.30M was made in the Statement of Accounts for 2012.13 in respect of this. A further provision of £0.72M has been maintained to reflect the *potential* for further levies to be issued as dictated by the *Scheme of Arrangement.* This sum is considered prudent at this stage but is subject to 6 monthly reviews by the Treasurer in conjunction with M.M.I.'s bi annual *Statement of Accounts*

12. In order to streamline risk management processes, the Risk Manager is investigating the potential for the existing risk register to be incorporated into the corporate performance management system known as *Spectrum*. Early indications suggest this is feasible and that modest savings can be achieved if implemented. The Risk Manager is commencing a pilot around February 2014 and will work with Head of Audit and Treasurer to assess results.

13. Legislation giving rise to major changes in civil procedures for dealing with *Personal Injury* claims (Employers and Public liability) was passed on 1st April 2013 and notably accidents (employees or public) occurring after 1st August 2013 are subject to appreciably lower fixed fees regimes from third party solicitors. In theory, these changes should give rise to considerably reduced costs from third party solicitors. In order to maximise savings, the Risk Manager will be working closely with our legal advisers and insurers.

Finance

14. There are no explicit financial implications arising from this report.

Law

15. The Council has a statutory responsibility for managing risks as laid out in Section 4 of the Accounts and Audit Regulations 2003 (amended 2006).

Equality Impact

16. There are no equality issues arising from this report.

Recommendations

17. That this committee:

- Notes and comments on the Corporate Risks as set out in Appendix 1.
- Identifies any additional risks that it considers should form part of the Corporate Risks list.
- Considers specifically the risks relating to Budgets and associated controls
- Notes the information item on Carbon Reduction risk
- Identifies a particular risk for closer scrutiny the next time a risk report is scheduled (Provisionally July 2014).
- Approves the Risk Management Strategy and Guidance set out in Appendix 3
- Notes the other matters relating to Risk Management

………………………………………………………………….

Iain Newman, Treasurer

Contact Officer: Sara McNally, 01384 815346. sara.mcnally@dudley.gov.uk

Corporate Risks following review by Corporate Board 28th January 2014

Risk Ref	The Risk	Risk Rating	Risk Owner	Mitigating Controls	Status since last report October 2013
ORG0001	Potential cost implications of equal pay settlements.	**Moderate**	**Philip Tart**	Specialist legal advice and support in relation to equal Pay litigation and settlement process. **Philip Tart**	*

ORG0002	The Council may be unable to set and/or manage its budget so as to meet its statutory obligations within the resources available.	**Major**	**Iain Newman**	Devolved Accountancy Teams report to the Treasurer and working with Directorates, monitor spending and income, develop robust budget monitoring proposals and ensure financial input to decision making **Jan Szczechowski** Monitoring and forecasting of government grants, considering announcements and briefings from Department of Communities and Local Government, Local Government Association, Special Interest Group of Municipal Authorities and other relevant commentators. **Jan Szczechowski** Monitoring and forecasting of council tax and the local share of business rates (in conjunction with Accountancy and the Valuation Office Agency) **Ian Wollaston** Reporting to Cabinet and Audit and Standards Committee on spending and income and at outturn (including the Statement of Accounts) **Iain Newman** Budget and business planning processes agreed with Informal Cabinet and Corporate Board. The process will consider budget pressures and develop savings proposals, including efficiency, transformation, alternative service delivery models and service prioritisation. **Iain Newman** Reports to Cabinet, Scrutiny Committees and Council on budget proposals. **Iain Newman** Reports to Council on the robustness and the adequacy of financial reserves (Section 25 of the Local Government Act 2003). **Iain Newman** Corporate Board to operate as a programme board for the delivery of actions to address the budget challenge. **John Polychronakis**	▲

ORG0003	Energy & Carbon reduction targets not achieved by the Council resulting in increased energy costs, increased carbon emissions and financial penalties under the Environment Agency CRC Scheme	**Moderate**	**Phillip Tart**	All reporting obligations met in accordance with requirements of the Carbon Reduction Commitment Scheme. **Energy Manager** Creation & mtce of a new Corporate Energy and Carbon Reduction Strategy. **Energy Manager** Ongoing programme of energy and carbon reduction activities, planned, coordinated and delivered. **Energy Manager**	*
ORG0007	Corporate Property Review There is a risk that the Council fails to vacate sites in a timely manner and is unable to release sites to the LLP for disposal in accordance with the development agreement, resulting in financial consequences detrimental to the Council	**Moderate**	**Phillip Tart**	Detail project/partnership underway incorporating Corporate Property and the LLP **Steve Cooper**	●
ORG0013	Information Governance: The Council may fail to; assess the importance of information to the business and may be unaware of the potential impact on the organisation should the confidentiality, integrity or availability of information be compromised.	**Significant**	**Iain Newman**	Information asset owners identified /named for each information asset (CORA40020) **Lewis Bourne** Key information assets across the organisation identified and classified with Protective Marking System (CORA40020) **Lewis Bourne** A structure consisting of a Board level Senior Information Risk Owner (SIRO) in place. (CORA40020) **Lewis Bourne** Information asset owners responsible for completion of a self assessment Data Protection Compliance checklist (CORA40020) **Lewis Bourne**	●

ORG0017	Welfare reform/s - There is a risk that various changes to welfare and benefits could place people at risk and increase pressures on statutory services	**Significant**	**Philip Tart**	Welfare Reform Project Board in place to monitor actions and outcome. **Diane Channings** Increased provision for bad debt (housing) subject to regular review. **Diane Channings** Reviewing use of Discretional Housing Payments in line with new guidance **Mike N Williams** Local Welfare Assistance/Members Steering Group in place a replacement scheme for DWP Social Fund **Mike N Williams** Joint working with third sector and other external internal partners to identify and support people affected by changes. **Mike N Williams** Increase & diversify housing stock to mitigate effects of spare room subsidy **Ron Sims**	●
ORG0019	The Council acknowledges that there is a risk of fraud across all areas of its operations and is working both internally and with external partners to prevent and reduce this risk.	**Significant**	**Iain Newman**	Detailed fraud risk register is held within Audit Services which is reviewed on a quarterly basis. **Les Bradshaw** Data matching exercises undertaken. **Les Bradshaw** Audit Services has detailed work programme Audit Services have a programme of work where the areas of fraud on the fraud risk register are reviewed with relevant staff / departments to examine controls in place to prevent and detect fraud. **Les Bradshaw**	●

ORG0021	It is becoming increasingly difficult for the Council to mitigate against the risks to children and young people who are vulnerable to harm due to a rising demand and contracting budgets	**Major**	**Ian McGuff**	Development of early intervention services **Ian McGuff** DSLT prioritises spend and manages budgets to ensure children are safe from harm and neglect **Ian McGuff** Optimise management structures to ensure service improvements are maintained. **Ian McGuff**	●
ORG0022	Failure to achieve compliance with the Public Service Network	**Withdrawn**	**Iain Newman**		

Risk rating is a combination of impact and likelihood

Status reflects risk history.

Status key: ▲ **Worsening** ● **Stable** * **Improving**

Carbon Reduction Commitment

In July 2010 the Council was required to register for the new Carbon Reduction Commitment (CRC) Scheme. The mandatory scheme requires the submission of energy data and a corresponding annual payment for carbon emissions generated. The first report was submitted in July 2011. In response, a risk was identified and mitigated in the main through a small group of officers reporting indirectly to the then Corporate Sustainability Group. Their roles meant that they had some knowledge of the Council's operations which enabled them to contribute to the capture of energy (gas and electricity) data. Since reporting obligations came into force the Council has successfully complied with the Scheme and has not been penalised for late or inaccurate information.

The Government has made significant changes to Phase 2 of the CRC scheme designed to simplify the scheme and to reduce the administrative burden for participants, whilst maintaining its effectiveness in delivering energy and carbon savings. The main changes with financial implications for the Council come into effect in 2014-15, and are as follows

- The cost per tonne increases from £12 to £16, and then in line with RPI each year
- Emissions from schools and academies will be excluded
- Emissions from street lighting, signs and signals will be included

It is anticipated that the above will still be met from the existing budget of £600k.

The amended requirements of the CRC Scheme points to a greater coordination of activities designed to reduce the Council's energy consumption and carbon emissions .At a time of wider change to the property portfolio where the Council is reconsidering which properties might be disposed of and which might be used differently, it is appropriate that activities are bought together into a new corporate Energy and Carbon Reduction Strategy. In addition, as part of the review of the Corporate Landlord function a post of Energy Manager will be created to review and reduce energy consumption throughout the Council with a target of achieving £250k savings for the General Fund by 2015/16.

Risk Management Strategy incorporating Risk & Assurance Protocol Guidance

2014-15

Risk Management & Insurance
Directorate of Corporate Resources

Risk Management Strategy and Assurance Protocol Guidance (Reviewed Jan 2014)

Dudley
Metropolitan Borough Council

Introduction

The Risk Management Strategy within Dudley MBC will follow recognised principles encompassing the Risk Assurance Protocol process, namely:

- Risk identification and analysis should be undertaken at the earliest opportunity in the business processes
- Emphasis is placed upon assigning risk ownership and mitigating actions
- A central, corporate risk register should be used by all directorates for recording and updating risks
- Mitigating actions should be regularly reviewed and tested for efficiency and effectiveness
- Project risks should be managed in accordance with best practice e.g. PRINCE2 (Projects in Controlled Environments)

The corporate risk register is the JCAD Risk system.

The Risk Assurance Protocol (R.A.P.) is required to be signed by each Director every quarter, to give assurance that all the risks and mitigating actions for his/her directorate have been reviewed and monitored. Audit Services assess compliance with the RAP when undertaking risk management audits.

Primary responsibility for risk management sits with each director. The Quarterly Performance Monitoring process seeks to report the most important ("corporate") risks to Corporate Board and to elected members, via the *Quarterly Performance Management Report*. Audit & Standards Committee will also receive regular risk reports and is expected to provide scrutiny of risks and importantly their associated controls.

Practical Guidance

The purpose of this guidance is to assist with the identification, scoring, review and management of risks. Revisions have been made to the guidance to reflect experience of working with the R.A.P. and to take account of issues raised by Corporate Board, Risk Champions and Audit Services in relation to:

- Moderation of risks – to ensure that a complete range of risks are managed at an appropriate level and that risks are ranked consistently.
- Corporate risks – definition of the criteria to ensure that the most important risks (and only those) are reported to Corporate Board and elected members.
- Partnership risks – ensuring that risks explicitly relating to the Council's exposure from partnership working are properly reflected.

A sample R.A.P. is attached as an Appendix. The sections in this guidance are structured around the questions in the R.A.P.

Have risks been clearly identified and adequately described?

Firstly, what is a risk? The corporate definition is

"Uncertainty of outcome, whether positive opportunity or negative threat"

Priority risk considerations therefore are:

- New legislation/developments etc.
- Volatile/transient e.g. extreme weather/political change
- Historical evidence e.g. past problems
- Persistent but serious Audit breaches
- Prosecutions
- Early warning indicators
- Wider intelligence

The following would **not ordinarily** be included within the risk register:

- Routine operations running well with no evidence to the contrary.
- Areas giving little or no historical evidence of volatility.
- Not merely due to a 'general lack of resources'.

Risk identification is concerned with identifying the events that can impact on the business objectives. It may be helpful to think in terms of the following phrases and to maintain focus around Dudley M.B.C. and its responsibilities in the first instance

EVENT	→	**CONSEQUENCE**	→	**IMPACT**
There is a risk that / of….		leads to…		results in…

A risk simply expressed as "failure to complete project x or achieve objective y" is unlikely to be a meaningful risk and is unlikely to help when it comes to the design of mitigating actions. Therefore all risks should be articulated in a way that makes them understandable to the layperson and **not** written in jargon or acronyms.

In order to ensure the completeness of risks, it **may** be helpful to consider the following categories (not all of these may be relevant or they may not throw up significant risks in every area of the Council's business and some risks will fall into more than one category):

- Competitive
- Financial
- Partnership/Contractual
- Physical
- Professional
- Social
- Environmental
- Legal
- Service Delivery
- Political
- Reputational
- Technological

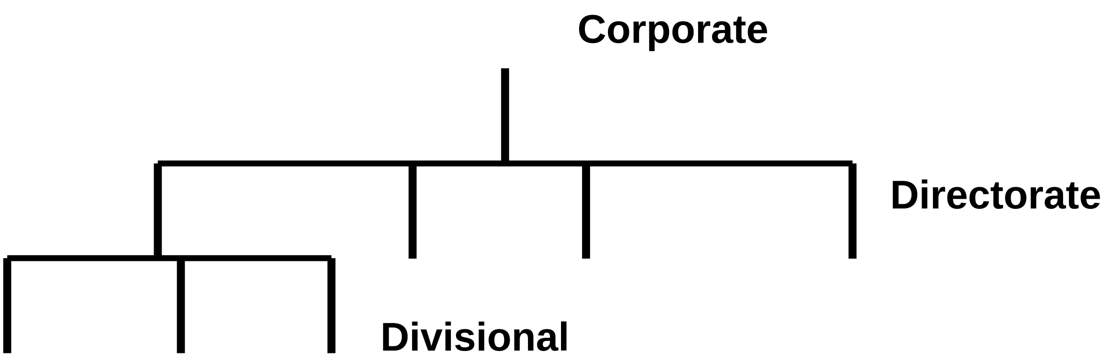
Risk identification should be repeated regularly to ensure that new risks arising are identified and brought into the risk profile as appropriate, for example:

- An adverse event (or a “near miss” event occurring either within Dudley MBC or another organisation).
- Something new e.g. a project, partnership, or very different service and/or new funding stream.
- As a result of ongoing management review, e.g. budget pressures, unexpected demand for service, etc.
- From changes in legislation.

Risks should be recorded on the JCAD system. Training and support in the use of this system is available from the Risk Management and Insurance Team.

Risk Register Levels

For manageable reporting and risk tolerance standards JCAD Risk has been structured in the following way:



Corporate - risks at this level will be **owned by Corporate Board or Directors** and should be:

- Primarily strategic, relating to key objectives or functions. Usually spanning several business planning years and several or all directorates - e.g. future funding scenario, demographics, pay structures, asset utilisation/disposal and high-level business continuity/emergency planning. It is expected that Directors/Board will identify this level of risks and will formally review them at least 3 times per annum. Audit & Standards Committee will also receive details of corporate risks 3 times per annum and on a rolling basis will scrutinise particular corporate risks of its choosing. This may entail directors and other senior officers attending this committee to provide members with advice and guidance on how particular risks are being managed.

Directorate - risks at this level are to be owned by the senior management within directorates and should include:

- Probably fundamental to one or several key objectives of individual directorates. Expectation that Directors/Assistants would own and report to Board at his/her discretion - e.g. Waste disposal, Children in Care, Transforming Social Care

Divisional - risks at this level should be:

- Mainly key operational, unique to a division but would encompass most important or escalated risks from team levels where appropriate. Escalated to directorate level at the discretion of DMT/DMG's.

Entry of risks below this level on JCAD is discretionary.

Are the risks still valid?

Existing risks should be reviewed to ensure all aspects of the risk and its management are still valid. In this regard, risk owners should remain cognizant of risk volatility, new or revised controls and the need for accurate ratings with regard to impact and likelihood. In other words the transient and volatile nature of risks must be acknowledged and managed accordingly.

New Risks -

It is vital to consider gaps in risk registers i.e. are there any new areas of risks that are not considered. In this regard, management processes must ensure mechanisms are in place to facilitate this, e.g. at management meetings or business planning sessions. A separate mini guide is available on how to carry out a review on JCAD and the importance of the diary/letters tab.

Obsolete Risks -

Risks should not be deleted from the JCAD system. However, where a risk ceases to be relevant it should be given the status "withdrawn" in the system. The diary facility in JCAD should be used to record the reason for withdrawal of the risk. Should a risk be 'withdrawn' for a period in excess of 12 months then it will be deleted from JCAD by the Risk Management section as part of the system housekeeping.

Risk ownership and monitoring -

In determining risk ownership, there is a balance to be struck:

- Ownership of a large number of risks at too high a level may be ineffective.
- Ownership at too low a level would lead to the proliferation of risks and confuse the reporting to senior levels.

A risk owner should be an officer with authority to review and enforce the processes to manage the risk in question. It is possible that someone other than the owner of the risk itself may own mitigating actions; however overall responsibility remains with the risk owner.

Risk ownership should be recorded in the JCAD system. This supports good risk management because:

- System reminders make the risk owner aware of his/her role.
- Reminders ensure that reviews are carried out.
- Changes in staff are less likely to be overlooked, as failure to carry out reviews will be highlighted to the Risk Management and Insurance Team.

Are the review dates still valid?

Review dates for risks and their associated mitigating actions should reflect the status of the risk. See guidance on the status of risk below. The JCAD system will then send automatic reminders to review risk.

The R.A.P. is signed quarterly, while some minor risks may be reviewed less frequently than this. The R.A.P. may legitimately be signed if reviews have been carried out at the relevant review dates.

Have all mitigating actions been identified and are they operating as intended? Is the assessment of each mitigating action in reducing the likelihood and/or impact still correct?

Having ensured that the relevant risks have been identified, the main focus of risk management should be on the implementation of relevant mitigating actions and compliance with mitigating actions. Ownership of mitigating actions should be guided by the same considerations as are set out for risk ownership – i.e. officers with authority to review and enforce.

In many cases it will be possible to cite an entire business process as a mitigating action. For example, the FMMR process is a mitigating action against the risk that the Council does not manage within its available resources. Health and safety reviews are a mitigating action against the risk of physical or psychological harm to employees and the public. In these cases it is not necessary to record all the details of the process in JCAD.

Costs and logistics of implementing mitigating actions should be in perspective. If risk measures are particularly complex then a formal cost benefit analysis will need to be undertaken i.e. controls measures should remain commensurate with the risk.

The higher the current assessment of a risk (see below), the more active consideration there should be of additional mitigating actions to reduce the risk.

Reminders to review mitigating actions are issued by JCAD. Officers reviewing mitigating actions should undertake sample ("spot check") testing to ensure that processes have operated in practice during the relevant period. The diary facility in JCAD should be used to record brief details of this testing.

Is the CURRENT assessment of the risk still valid?

The current assessment of risk is a **net** combination of impact and probability (likelihood).

Criteria for assessing impact (as insignificant, minor, moderate, significant or major) are set out below:

	IMPACT DESCRIPTIONS				
	1 Insignificant	2 Minor	3 Moderate	4 Significant	5 Major
Service, Partnership & Project Delivery	Minor errors in systems and processes handled within normal daily routine.	Short-term disruption and action required. Managed by intervention from Head of Service/ Block Leader or Project Manager.	Noticeable disruption affecting customers. Intervention and management by local management team.	Disruption of core activities. Key targets missed, some services compromised. Intervention by DMT or Project Board or Block Leaders Group required	Loss of core activities. Strategic aims compromised. Intervention by Cabinet/, etc.
Financial	Not exceeding £10k losses or negative variance against annual revenue budget or capital budget	£11-50k losses or negative variance against annual revenue budget or capital budget	£50k to £250k losses or negative variance against annual revenue budget or capital budget	Between £250K to £750k losses or negative variance against annual revenue budget or capital budget	Greater than £750k losses or negative variance against annual revenue budget or capital budget
Reputation	Event or decision not in the public domain that has little impact outside of DMBC	Event or decision in the public domain that receives minimal or no negative coverage by local media	Event or decision in the public domain that receives some negative coverage by local media and/or pressure groups	Event or decision in the public domain that receives significant negative coverage by national media and/or pressure groups	Event or decision in the public domain that receives extensive negative coverage by national media and/or pressure groups

Impact descriptions above should be taken, where appropriate, to include the risk of lost opportunity. For example, there may be the risk of missing an opportunity to make significant financial gains or achieve extensive positive media coverage.

Probability should be assessed into one of five bands ranging from Rare (<10%) to Almost Certain (>90%).

The JCAD system calculates a current rating, based on a combination of impact and probability, as follows:

PROBABILITY (Over next 12 months)							
	Almost Certain >90%	5	Minor (5)	Moderate (10)	Significant (15)	Major (20)	Major (25)
	Likely 50%-90%	4	Minor (4)	Moderate (8)	Significant (12)	Major (16)	Major (20)
	Moderate 30%-50%	3	Insignificant (3)	Minor (6)	Moderate (9)	Significant (12)	Significant (15)
	Unlikely 10%-30%	2	Insignificant (2)	Minor (4)	Minor (6)	Moderate (8)	Moderate (10)
	Rare < 10%	1	Insignificant (1)	Insignificant (2)	Insignificant (3)	Minor (4)	Minor (5)
			1 Insignificant	2 Minor	3 Moderate	4 Significant	5 Major

Dependant upon the score of the risk, the following reporting and review standards are **recommended**

RISK COLOUR	RISK SCORE	REPORTING LEVEL	RECOMMENDED REVIEW PERIOD
RED	**MAJOR** (score of 16-25)	Directorate & Corporate Board via the Quarterly Corporate Performance Report but only if also deemed a 'corporate' risk	At least quarterly
ORANGE	**SIGNIFICANT** (score 12-15)	Directorate	At least quarterly
YELLOW	**MODERATE** (score 8-10)	Directorate	At least six monthly
BRIGHT GREEN	**MINOR** (score 4-6)	Division	At least annually
DARK GREEN	**INSIGNIFICANT** (score 1-3)	Risk Owner	At least annually

Nothing in the above should prevent risks being from time to time reported to a higher level or reviewed more frequently if required should they become volatile.

Moderation / Management

As with any system of criteria, the impact and probability criteria set out above are open to interpretation. Risk Champions and relevant DMG/DMT's and/or directorate Risk Groups should, as a matter of course, have a role in moderating those interpretations and using their discretion.

It is not possible to define the types of risks that should appear as major risks – to do so would prevent each risk from being considered on its own merits. However, if the process is operating as intended, the risks that are considered by Corporate Board and Members should be those that are not capable of being contained at directorate level and will become known as *Corporate Risks*. As a matter of course, these risks will be published in the Quarterly Corporate Performance Report.

The Risk Management process should include the following:

Risk identification – by all employees

Employees should highlight risks to their line manager, e.g. through supervision, team meetings and/or planning processes. Risks are included in team/service plans, along with mitigating actions and referred to immediate line managers. It may not be necessary to enter risks on the risk register at this point. This should be something that managers and respective teams should establish and at which level they should be entered on the risk register. At this level, risks are likely to be at team level so entry on the risk register is optional but risks should be managed regardless.

▼

Risks communicated and entered onto JCAD (Risk Register)

Following validation by line managers / heads of service, risks are entered onto JCAD. The Risk Owner must ensure that valid controls have also been entered and review periods aligned with the risk score as outlined above.

▼

Risks reviewed (Service Level Teams (S.L.T's), Departmental Management Teams (D.M.T.'s) / Directorate risk groups)
S.L.T. members review and identify new risks at Quarterly Performance and/or Risk Management meetings. This provides a challenge process in order to review and monitor volatile and major risks as well as assisting with the quarterly assurance protocol process.

▼

Escalation of risks to corporate level.
It should be borne in mind that any risks which are primarily strategic relate to key objectives or functions and span several business planning years and/or several or all directorates may need to be brought to the attention of Directors for possible escalation to 'corporate' level. There is formal opportunity to bring these risks to Corporate Board 3 times per annum but in intervening periods, Directors should raise awareness at any time they consider appropriate.

Partnerships

Whilst partnership working continues to be an important part of the Council's operations, experience indicates that partnerships rarely give rise to risks in isolation. Accordingly there is no longer a requirement to make a risk register entry uniquely associated with a partnership. Accordingly risks associated with a particular partnership should be considered by the lead team/ division/directorate and entered on the JCAD system and monitored accordingly.

Should information arise that suggests a partnership does give rise to explicit risks that cannot be more appropriately accounted for elsewhere in the risk register, then a unique area can easily be created within the risk register structure and monitored accordingly..

Director's sign off

Director sign off should be based on an escalation of assurances from heads of service up to Assistant Directors and, in turn, to Directors themselves to enable sign off to take place. This may be a quarterly or more frequent DMT item.

Risk Management and Insurance Team can support this process with reports from JCAD to show where reviews have or have not been completed on time, where risks have been amended, etc. The RAP will need to be completed by each Directorate

Performance/Risk Management Assurance Protocol – 2014/15

Directorate: .... **Quarter:…………………………**

	Review criteria	Y	N
1	Have any objectives for your Directorate changed, e.g. new services or projects? (*This should include any risks that you consider should be escalated via the Director to be reported on at Corporate level).		
2	Have risks been clearly identified and adequately described?		
3	Are the risk owners still valid? *(E.g. the most appropriate / still in post?)*		
4	Are the risks still valid? *(E.g. still current or have they now past?)*		
5	Are review dates still valid? *(dependant on risk status in accordance with the separate guidance notes)*		
6	Have all mitigating actions been identified and are they operating as intended?		
7	Is the assessment of each mitigating action in reducing the likelihood and/or impact still correct?		
8	Is the **CURRENT risk rating** of the risk still valid? i.e. in accordance with the standard impact/probability guidance		
9	Have there been any significant worsening of risks since last review * (note 2)		

Additional information/notes:

1/ The Assurance Protocol will need to be completed by the relevant Director liaising with the Risk Champion to determine the arrangements are place to ensure compliance.
2/ Where significant worsening of risk/s has occurred, directors will also consider additional, formal reports to appropriate committee/s.

*** Please state any risks which you consider should be escalated via the Director to be reported on at Corporate level**:

List of significant partnerships and projects assumed included in the above:

Significant partnership/project	Lead Officer

Director……………………………………………………………………………………… **Date**………………………..

Agenda Item No. 8

Note:

It is important to note that the Treasury Strategy Statement is adopted by the Council, based upon advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

Audit and Standards Committee – 13th February 2014

Report of the Treasurer

Treasury Management

Purpose of Report

1. The purpose of this report is:

   - to outline treasury activity in the year 2013/14 up to the end of December;
   - to seek approval of the Treasury Strategy Statement 2014/15

Background

2. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks

3. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund *(WMDAF)*. We are responsible for administering capital funding of £770m on our own account and another £190m on behalf of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

4. Our borrowing and investment activities in the current year have been undertaken in the context of historically low interest rates. The Bank Rate has remained at 0.5% since March 2009 and is likely to remain at this rate during 2014-15.

Treasury Activity 2013/14 - Dudley fund

5. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2013/14 approved by Audit Committee and Full Council in February 2013. In that document we anticipated that long term borrowing would be required in the next 12 months due to cashflow need.

6. Our investments up to the middle of January have averaged £44.09 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.54%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2013/14. The performance of our investments is largely dependent on movements in short-term (up to one year) rates. The average 7-day LIBID[1] for the year to the end of December has been 0.36%. Our investment activity for 2013/14 (to date) is set out in more detail in **Appendix 1**.

7. The returns outlined above have been achieved without compromising on the security of the Council's investments. We have maintained and continue to maintain an approved investment list that sets the highest rating standards. We have an account with the Government's Debt Management Office which provides maximum security but low returns. We are only using this account where we cannot place funds with a bank that meets our strict criteria. The majority of short-term investments are in variable rate call accounts with approved counterparties, which offer a relatively good rate of return compared to fixed term deposit accounts as well as greater liquidity.

8. The average value of long-term borrowings up to the end of December 2013 was £537.5 million. The average rate of interest on these borrowings was 4.09% and they were due to mature on dates ranging from the current year to 2061.

9. The rate for a 50-year loan from the Public Works Loan Board (PWLB) has fluctuated during 2013-14 from 4.04% to 4.71% and was standing at 4.54% in early January. The Council is eligible to apply for certainty rates at 0.2% below these rates, introduced in 2012, for local authorities who provided the required information on their plans for long-term borrowing and associated capital spending. In addition the "Project Rate" which is set at 0.4% below standard rate, is available for approved single projects identified by Local Enterprise Partnerships (LEPs).

10. It has not as yet been necessary to undertake any new long-term borrowing due to favourable cash flow, but we are monitoring interest rates and cash flow closely. Medium term cash flow forecasts indicate an underlying requirement to borrow in 2014-15.

11. The Council has used short term borrowing on 6 occasions in the year to date to manage daily cash flow. The average value of the borrowing has been for £1.9m at an average rate of 0.41% for an average duration of 18 days. Daily cash balances have been mainly managed through the use of call accounts.

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[1] 7-day LIBID is a measure of the average return from a 7-day investment on the London money market.

Treasury activity 2013/14 - WMDAF

12. Having consulted with our advisors at Arlingclose, we did not identify any opportunities to improve our position by restructuring of debt. The Council has used short term borrowing on 5 occasions in the year to date to manage daily cash flow for the WMADF. The average value of the borrowing has been for £2.7m at an average rate of 0.39% for an average duration of 77 days. The latest estimate of interest payable by members of the WMDAF in 2013/14 is 6.5%.

Treasury Strategy Statement 2014/15

13. The Treasury Strategy Statement covers our latest capital funding requirements, our view of interest rate movements and our strategy for borrowing and investment in the light of that view. As such, it needs to be reviewed annually. The proposed Treasury Strategy Statement for 2014/15 is attached as **Appendix 2**.

14. Our expectations for interest rates over the next twelve months, which will be subject to continuous review with our treasury advisors, are as follows (standard PWLB rates are generally about 1% above Government gilts while certainty rates are about 0.8% above gilts):

- **Short-term rates.** The Bank Rate will remain at 0.5% through 2014/15 and probably until the end of 2015/16.
- **Long-term rates.** 20-year Government gilt rates will rise in 2014/15 from 3.30% to 3.50%
- **Very long- term rates**. 50-year Government gilt rates will rise in 2014/15 from 3.50% to 3.70%

15. The Local Government Act 2003 introduced a system of "prudential borrowing" allowing councils to set their own borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code which specifically requires us to set a number of prudential indicators. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement.

16. In order to protect the Council's position if an individual or organisation were to act upon the views expressed in this report, we have deemed it necessary to produce a disclaimer which is shown as a note at the head of the report and Appendix 2.

Finance

17. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates. Budgets were amended in October 2013 to reflect a surplus of £1.5m compared to the original budget for 2013/14. This surplus was mainly due to variations in cash flow.

Law

18. The Council has adopted CIPFA's Treasury Management in the Public Services : Code of Practice 2011 which requires the Council to approve a treasury management strategy before the start of the financial year and provide a mid-year update on treasury management activity . In addition, the Department for Communities and Local Government (DCLG) issued revised Guidance on Local Authority Investments in 2010 that required the Council to approve an investment strategy before the start of each financial year. This report fulfils the legal obligation under the Local Government 2003 to have regard to both the CIPFA code and the DCLG guidance.

Equality Impact

19. The treasury management activities considered in this report have no direct impact on issues of equality.

Recommendation

20. That the Committee:

- notes the treasury activities in 2013/14 outlined in this report;
- approves the Treasury Strategy 2014/15 attached as Appendix 2;
- authorises the Treasurer to effect such borrowings, repayments and investments as are appropriate and consistent with the approved Treasury Strategy and relevant guidance;
- refers all of the above for approval by full Council at its meeting on 24th February

…………………………………………..

Iain Newman
Treasurer

Contact Officer: Amarjit Uppal
Telephone: 01384 812425
Email: amarjit.uppal@dudley.gov.uk

List of Background Papers

- Treasury Policy Statement, Treasury Management Practices and Schedules to the Treasury Management Practices.
- The Local Government Act 2003
- The Prudential Code for Capital Finance in Local Authorities (CIPFA)
- Guidance on Local Government Investments Issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003
- Code of Practice for Treasury Management in the Public Services (CIPFA)

Appendix 1

Investment Activity 2013/14 to 5th January 2014

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Barclays Treasury Direct	22	8.10	0.36	23
Debt Management Office	34	6.90	0.25	14
Nationwide Building Society	14	8.50	0.38	31
Bank of Scotland Call Account	N/A	11.9	0.62	Call
Yorkshire Bank Call Account	N/A	0.01	0.50	Call
Santander Call Account	N/A	0.37	0.40	Call
Nat West Call Account	N/A	0.01	0.61	Call
HSBC Call Account	N/A	7.8	0.32	Call
Salford City Council *	1	0.5	11.25	Matures in 2020

The table above includes investments that commenced during 2012/13 and were due to mature in the current financial year.

* This is a fixed term deposit that was made in 1985 and is due to mature in 2020.

Note:
It is important to note that the Treasury Strategy Statement is adopted by the Council, based on advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

DUDLEY METROPOLITAN BOROUGH COUNCIL
TREASURY STRATEGY STATEMENT 2014/15

1.0 Introduction

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2014/15. The suggested strategy is based upon officers' views of interest rates as advised by external advisors, supplemented with leading market forecasts. It should be noted that the use of expert external advisors does not remove the responsibility of Members and officers for treasury management functions and that those functions cannot be delegated to any outside organisation. The strategy covers:

- the current portfolio position
- prudential and treasury indicators
- prospects for interest rates
- temporary investment strategy
- requirements and strategy for long-term borrowing
- debt rescheduling and premature repayment opportunities
- treasury implications of HRA Self Financing

2.0 Current Portfolio Position

2.1 The Council's estimated debt position as at 1st April 2014 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	505.8
- PWLB variable rate	13.0
- Market fixed rate	6.8
- Market LOBO[2]	10.0
Short-term debt	50.0
Total debt	585.6

2.2 The average rate of interest on the above debt is expected to be 3.95%.

[2] Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2009 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

2.3 The average level of investments held by the Council during 2013/14 to early January 2014 was £44.09m. Cash flow monitoring indicates that long term borrowing may be required in the next 12 months.

2.4 The Council also administers the debt of the former West Midlands County Council on behalf of the West Midlands districts. The estimated debt position at 1st April 2014 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	169.9
- Market fixed rate	6.8
- Market LOBO[3]	10.0
Short-term debt	0.0
Total debt	186.7

2.5 The average rate of interest charged to the West Midlands fund is expected to be 6.5%.

3.0 Prudential & Treasury Indicators

3.1 Under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, local authority capital spending and its borrowing to fund that spending is limited by what is affordable, prudent and sustainable. The Prudential Code sets out a number of indicators that enable the authority to assess affordability and prudence. The following indicators are relevant for the purposes of setting an integrated treasury management strategy.

3.2 <u>Treasury Indicators in the Prudential Code</u>

3.3 The Prudential Code requires that the total external debt does not exceed the Authorised Limit for external debt and only exceeds the Operational Boundary for external debt temporarily on occasions due to variation in cash flow.

These external debt indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. It has been calculated to take account of the Council's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. The operational boundary for external debt has also been calculated with regard to the Council's capital expenditure and financing plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant.

[3] Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2007 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

Actual external debt represents the closing balance for borrowing and other long-term liabilities.

	2012/13	2013/14 Revised	2014/15 Revised	2015/16	2016/17
	£m	£m	£m	£m	£m
Authorised limit for external debt:					
Borrowing	n/a	926	919	898	876
Other long term liabilities	n/a	38	39	40	41
Total	n/a	**964**	**958**	**938**	**917**
Operational boundary:					
Borrowing	n/a	811	817	855	855
Other long term liabilities	n/a	37	39	40	41
Total	n/a	**848**	**856**	**895**	**896**
Actual External Debt:					
Borrowing	737	n/a	n/a	n/a	
Other long term liabilities	3	n/a	n/a	n/a	
Total	**771**	**n/a**	**n/a**	**n/a**	

Gross Debt and the Capital Financing Requirement:

This is a new key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Council has met this requirement in 2013/14, and expects to do so in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3.4 Treasury Indicators in the Treasury Management Code

CIPFA Code of Practice for Treasury Management in the Public Services

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Interest rate exposures

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The upper limit for variable rate exposure allows for the use of variable rate debt to offset our exposure to changes in short-term rates on our portfolio of investments. This limit reduces over time as our strategy is to gradually reduce our level of investments.

	2013/14	**2014/15**	**2015/16**	**2016/17**
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	10	10	10	10

Maturity structure of borrowing and investments

The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

	Upper limit %	**Lower limit %**
under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	15	0
5 years and within 10 years	25	0
10 years and above	100	40

Upper Limit for total principal sums invested over 364 days

The purpose of the limits for principal sums invested for periods longer than 364 days is to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. On the basis of prudent treasury management the proposed upper limit on principal maturing in any one year for sums invested for over 364 days is £10m.

4.0 Prospects for Interest Rates

4.1 The Council has appointed Arlingclose as its treasury advisor and has made use of their services in formulating a view on interest rates.

4.2.1 Our expectations interest rates over the next twelve months, which will be subject to continuous review with our treasury advisors, are as follows (standard PWLB rates are generally about 1% above Government gilts while certainty rates are about 0.8% above gilts):

- **Short-term rates.** The Bank Rate will remain at 0.5% through 2014/15 and probably until the end of 2015/16.
- **Long-term rates.** 20-year Government gilt rates will rise in 2014/15 from 3.30% to 3.50%
- **Very long- term rates**. 50-year Government gilt rates will rise in 2014/15 from 3.50% to 3.70%

5.0 Economic Background

5.1 The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain "knock-outs" (certain assumptions about future inflation and financial stability continuing to remain valid). The unemployment rate has fallen to 7.1%. The pace of decline in this measure will be dependent on a slower expansion of the workforce than the acceleration in the economy, alongside the extent of productivity.

5.2 The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.0 % in December 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending. The reduction in inflation will also ease pressure to increase the bank rate in the short term.

5.3 Stronger GDP growth data of 1.9% in 2013 alongside a pick-up in property prices, mainly stoked by government initiatives to boost mortgage lending, have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

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

6.0 Credit outlook

6.1 The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are ‘bailed in’ to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which will suffer a “haircut” on its conversion bail-in to alternative securities and/or equity.

7.0 Interest rate forecast:

7.1 Arlingclose’s projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of the forecast horizon. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.

7.2 Our overall strategy will be based on the projections above. However, we will maintain flexibility to take account of unexpected variations from our forecast.

8.0 Annual Investment Strategy

8.1 Our investment activities are subject to government guidance issued under Section 15(1) (a) of the Local Government Act 2003. This section of the Treasury Strategy Statement constitutes an “Annual Investment Strategy” produced in accordance with the guidance.

8.2 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. We have a policy of keeping cash balances at minimum levels by maximising the use of internal borrowing to finance capital expenditure. In the current financial year, the Authority’s investment balance has ranged between zero and £84 million. It is expected that cash balances will be at lower levels in 2014-15 due to the reducing budget, use of reserves and the cumulative effect of successive years of internal borrowing.

8.3 In accordance with Investment Guidance issued by the Department of Communities and Local Government (DCLG) and best practice the Council’s primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council’s investments followed by the yields earned on investments is important but are secondary considerations.

8.4 *Strategy for “specified investments”*

8.4.1 The Council will make use of specified investments (as defined within the terms of the government guidance). These are investments that satisfy the following conditions:

a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
b) The Council may require that the investment be repaid or redeemed within 12 months of the date on which the investment was made.
c) The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003.
d) The investment satisfies *either* of the following conditions:

   I. The investment is made with the UK government, a local authority, a parish council or a community council. or
   II. The investment is made with a body or in an investment scheme of high credit quality

8.4.2 For the purpose of this strategy a body or investment scheme is deemed to be of high credit quality if it has minimum short-term ratings of F1 (Fitch), P1 (Moody's), and A1 (Standard and Poors), and a support rating of 1 from Fitch.

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

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

8.4.5 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms

.

8.4.5 Due to the on-going stress and uncertainty in financial markets, the Council's investments must also satisfy all the following more stringent conditions:

- The Council will not invest in non-UK institutions

- Investments of a maximum duration of 3 months are permitted with UK institutions which have the highest short term credit rating from all three main credit rating agencies

- Investments of a maximum duration of 1 month are permitted with UK institutions which meet the criteria of 6.4.2 above but do not have the highest short term credit rating from all three main credit rating agencies

8.4.6 If conditions in the financial markets worsen during 2014-15 or other factors indicate that increased security of Council funds is required, the Treasurer may impose tighter restrictions on the type of investments and institutions used by the Council, than those detailed in this strategy.

8.4.7 The Council banks with HSBC. At the current time, it does meet the minimum credit criteria and has the highest credit rating for a UK bank. Even if the credit rating falls below the Council's minimum criteria HSBC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

8.5 *Strategy for "non-specified investments"*

8.5.1 Non-specified investments are those that do not meet the criteria in 6.4.1 above.

8.5.2 In determining which categories of non-specified investments may prudently be used, we will take account of:

- Advice from our treasury management consultants at Arlingclose.
- The views of experts at other councils.
- To the extent that investments are for a duration of 12 months or more, long-term credit ratings as determined by Fitch.

8.5.3 Due to the current period of stress in financial markets, the Council will not place its funds in non-specified investments.

8.6 *Liquidity of investments*

8.6.1 In determining the maximum period for which investments may be held, we will have regard to our most recent cash-flow forecast. We will not enter into an investment where our cash-flow forecast indicates that, as a result of that investment, we would be forced to borrow money in a future year that we would not otherwise have had to borrow.

8.6.2 We will ensure that, at the time of making a new investment, long-term investments (investments of one year's duration or more) constitute no more than 50% of our total pool of investments.

8.7 *Limit on investments with a single institution*

8.7.1 In order to limit the Council's exposure to a single default, investments with a single institution or group of banks should not exceed 20% of our total pool of investments or £5million (whichever is greater).

9.0 Policy on the Use of Financial Derivatives

9.1 A financial derivative is a contract whose value is based on, or "derived" from, an underlying financial instrument such as a loan. Local authorities have previously been able to make use of financial derivatives embedded into loans and investments, both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

9.2 The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

9.3 The Council does not intend to use standalone financial derivatives (such as swaps, forwards, futures and options). Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but no change in strategy will be made without full Council approval.

10.0 Requirements and Strategy for Long-Term Borrowing

10.1 The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. We will seek to minimise the time between borrowing and anticipated cash flow need, subject to the need to maintain day to day liquidity.

10.2 Our interest rate expectations (outlined in 4.2) provide a variety of options:

- that short-term variable rates will be good value compared to long-term rates, and are likely to remain so for potentially at least the next couple of years. Best value will therefore be achieved by borrowing short term at variable rates in order to minimise borrowing costs in the short term.

- that the risks intrinsic in the shorter term variable rates are such, when compared to historically relatively low long term fixed funding, which may be achievable in 2014/15, that the Council will maintain a stable, longer term portfolio by drawing longer term fixed rate funding at a marginally higher rate than short term rates.

10.3 Against this background caution will be adopted with the 2014/15 treasury operations. The Treasurer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances.

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. In conjunction with the treasury advisers, we will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, due to growth rates remaining low or weakening, then long term borrowings will be postponed

10.4 With respect to the West Midlands Debt, variances due to timing differences between the maturity profile of the debt and repayments from authorities can be managed by short term borrowing in 2014-15. As a result, we do not anticipate that further long-term borrowing will be needed during 2014/15. We shall take out long term borrowing on West Midlands debt when it is economically advantageous to do so.

11.0 Debt Rescheduling and Premature Repayment Opportunities

11.1 We may consider rescheduling or premature repayment with the following aims:

- the generation of cash savings at minimum risk;
- in order to help fulfil the strategy outlined in 8 above;
- in order to enhance the balance of the long-term portfolio *(by amending the maturity profile and/or the balance of volatility).*

11.2 Any rescheduling or premature repayment will be reported to an appropriate committee at the meeting following its implementation.

12.0 HRA Self Financing

12.1 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety 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.

12.2 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 which may be positive or negative. An average of this notional balance will be calculated annually and interest transferred between the General Fund and HRA at an internally determined rate of interest, adjusted for risk.

13.0 **Training**

13.1 CIPFA's Code of Practice requires the Treasurer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Relevant training is provided by Arlingclose to the members of the Audit Committee.

13.2 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 Treasurer will recommend and implement the necessary arrangements.

14.0 Treasury Management Advisors

14.1 The Council uses Arlingclose Ltd as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

14.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council maintains the quality of the service with its advisors by holding regular meetings and tendering periodically for the provision of treasury management advice

14.3 The Authority the following services from Arlingclose:

a. Credit advice
b. Investment advice
c. Technical advice
d. Economic & interest rate forecasts
e. Workshops and training events for officers and members