Public Document Pack

AUDIT COMMITTEE
Regulatory Committee
Agenda

Date	Thursday 7 March 2019
Time	6.00 pm
Venue	Crompton Suite, Civic Centre, Oldham, West Street, Oldham, OL1 1NL
Notes	1. DECLARATIONS OF INTEREST- If a Member requires any advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Paul Entwistle or Sian Walter-Browne in advance of the meeting.

2. CONTACT OFFICER for this Agenda is Sian Walter-Browne Tel. 0161 770 5151 or email sian.walter-browne@oldham.gov.uk

3. PUBLIC QUESTIONS – Any member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the Contact officer by 12 Noon on Monday, 4 March 2019.

4. FILMING - The Council, members of the public and the press may record / film / photograph or broadcast this meeting when the public and the press are not lawfully excluded. Any member of the public who attends a meeting and objects to being filmed should advise the Constitutional Services Officer who will instruct that they are not included in the filming.

Please note that anyone using recording equipment both audio and visual will not be permitted to leave the equipment in the room where a private meeting is held.

Recording and reporting the Council's meetings is subject to the law including the law of defamation, the Human Rights Act, the Data Protection Act and the law on public order offences.

MEMBERSHIP OF THE AUDIT COMMITTEE IS AS FOLLOWS:
Councillors Ahmad, Dean, C. Gloster, Haque (Vice-Chair), Salamat, Sheldon, Taylor, Toor and Rehman

Item No	
1	Apologies For Absence
2	Urgent Business

Urgent business, if any, introduced by the Chair

3 Declarations of Interest

To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.

4 Public Question Time

To receive Questions from the Public, in accordance with the Council's Constitution.

5 Minutes of Previous Meeting (Pages 1 - 6)

The Minutes of the meeting of the Audit Committee held on 10th January 2019 are attached for approval.

6 Audit Progress Report (Pages 7 - 22)

7 Data Protection Update (Pages 23 - 30)

8 Audit Committee Treasury Management Strategy Statement 2019-20 (Pages 31 - 78)

9 Internal Audit Charter 2019-20 (Pages 79 - 90)

10 Audit and Counter Fraud Plan 2019-20 (Pages 91 - 110)

11 2018-19 Proposed Accounting Policies and Critical Judgements (Pages 111 - 136)

12 Exclusion of the Press and Public

That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph(s) 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

13 Senior Information Risk Officer (Pages 137 - 142)

14 Follow up on Annual Governance Statement for 2017/18 and New Issues on Governance in 2018/19 (Pages 143 - 158)

AUDIT COMMITTEE
10/01/2019 at 6.00 pm

Present:	Councillors Ahmad, C. Gloster, Haque (Vice-Chair), Sheldon, Taylor and Toor	
	Also in Attendance:	
	Anne Ryans	Director of Finance
	Mark Stenson	Head of Corporate Governance
	Jane Whyatt	Audit and Counter Fraud Manager
	Alastair Newall	Senor Manager, Mazars External Auditors
	Karen Murray	Director and Audit Engagement Lead, Mazars External Auditors
	Marianne Dixon	Grant Thornton External Auditors
	Sabed Ali	Assistant Manager Internal Audit
	Andrew Bloor	Assistant Manager Counter Fraud
	Fabiola Fuschi	Constitutional Services Officer

1 **APOLOGIES FOR ABSENCE**

There were no apologies for absence received.

Councillor Haque chaired this evening's meeting.

2 **URGENT BUSINESS**

There were no items of urgent business received.

3 **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4 **PUBLIC QUESTION TIME**

There were no public questions received.

5 **MINUTES OF PREVIOUS MEETING**

RESOLVED that the minutes of the Audit Committee meeting held on 6th September 2018 be approved as a correct record.

6 **NOTIFICATION OF COMPLETION OF THE 2016/17 AND 2017/18 ACCOUNTS AUDIT**

The Committee considered a report of the Finance Manager (Capital and Treasury) which informed of the formal completion of the 2016/17 and 2017/18 accounts audit and issue of the of the Annual Audit Letter by the Council's External Auditor, Grant Thornton UK LLP. This followed the conclusion of all audit work regarding the outstanding objection to the 2016/17 Statements of Accounts. The auditors had also provided the Council with the Annual Audit letter which detailed the audit work completed in the year together with the Audit Fee.

This concluded the work of Grant Thornton Auditors for the Council. The Chair of the Committee thanked the External Auditors for their services and assistance throughout the time of their appointment.

RESOLVED that the notification of the completion of the 2016/17 and 2017/18 accounts audits and the issue of the Annual Audit letter by Grant Thornton UK LLP be noted.

7 **AUDIT STRATEGY MEMORANDUM**

Consideration was given to a report of the Head of Corporate Governance which set out the proposed Audit Strategy Memorandum for Oldham Council for the year ending on 31st March 2019. This was the first year of the audit by Mazars.

The Director and Audit Engagement Lead and the Senior Manager from Mazars were in attendance to present the Audit Strategy Memorandum and to address the enquiries of the Committee.

It was explained that this document summarised Mazars' audit approach. The four areas of responsibilities of the External Auditors were outlined; they derived from the relevant national legislation and from the National Audit Office's Code of Practice.

The audit approach was risk-based and primarily driven by the matters that led to a higher risk of material misstatement of the financial statements. The different stages of the audit were explained. The external auditors would be in site next week to commence the interim audit. The final audit would take place between April and May 2019; it would be finalised and brought to this Committee in June 2019. Although the External Auditors worked closely with the internal audit team, they did not plan to rely on the work of the internal audit.

The two wholly owned subsidiary companies, Miocare Group Community Interest Company and The Unity Partnership Limited would be audited separately from the Council as assurance over their transactions would need to be obtained by the External Auditors.

The materiality level was set at a similar level to last year's threshold. Therefore, the overall materiality for 2018/19 was expected to be £10 million for the audit of the Group financial statements and £9.99 million for the Council's single entity financial statement.

The External Auditors would also look at whether the Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Elected Members sought and received clarification / commented on the following points:

- The two wholly owned subsidiary companies would have separate audit fees and audit regime;
- Reassurance was provided over the fact that the Audit Strategy Memorandum complemented the internal audit plan.

RESOLVED that the Audit Strategy Memorandum for 2018/19 be noted.

8 **AUDIT PROGRESS REPORT**

The Committee considered a report of the External Auditors which provided an update on progress in delivering their responsibilities for 2018/19.

The report was presented by Mazars' Director and Audit Engagement Lead.

RESOLVED that the content of the report be noted.

9 **TREASURY MANAGEMENT HALF YEAR REVIEW**

Consideration was given to a report of the Director of Finance which sought to advise the Committee as to the key issues within the 2018/19 Treasury Management Half Year Review report. The matters below were outlined:

- Compliance with Statutory and the Chartered Institute of Public Finance and Accountancy's requirements;
- Changed in the Authorised Limit and Operational Boundary;
- The Council's Capital Expenditure and Financing during the first half of 2018/19;
- The Council's overall borrowing need;
- Treasury position at 30th September 2018;
- Borrowing outturn;
- Investment portfolio;
- Other key issues such as: UK Banks ring-fencing, the International Financial Reporting Standards and the nine accounting standards that came into effect from 1st April 2018 and the claim against Barclay Bank.

RESOLVED that the content of the Treasury Management Half Year Review 2018/19 be noted.

10 **EXTERNAL AUDIT FOR GRANTS 2018/19**

The Committee considered a report which set out the appointment of KPMG UK LLP as the External Auditor to the Council for the Housing Benefit Subsidy Grant and Teachers Pension Agency Return for the financial year 2018/19.

RESOLVED that the appointment of KPMG UK LLP to undertake the direct grants audit be noted.

11 **AUDIT AND COUNTER FRAUD PROGRESS REPORT**

The Committee considered a progress report of the Head of Corporate Governance which sought to inform of the first eight months of the financial year 2018/19, the work undertaken by the Internal Audit and Counter Fraud Team and the progress on the matters required by the Code of Practice for Internal Audit.

The Audit and Counter Fraud Manager presented the information and addressed the enquiries of the Committee.

The performance by the Audit and Counter Fraud Team for the first eight months were outlined. It was explained that for the current financial year, there was a newly agreed Corporate Performance Indicator which was reported using the Corvu system, managed by the Business Intelligence Team. In quarter three, the Council had achieved the agreed target. It was anticipated that the Council would continue to achieve this target by the end of the year. Performance against the target would be monitored and arrangements would be made by the Head of Corporate Governance to support managers across the Council as required.

Members sought and received clarification / commented on the following points:

- Fundamental Financial System Interim Final Report Payroll – It was explained that since July 2018 significant resources had been put into this area and the overall position had improved compared to the previous report.
- Members requested that, in order to have a better overview of the internal audit process and of the audit opinions, previous reports be made available for comparison. Members also mentioned that they would find helpful to receive case studies to better understand the issues that affected certain services.

RESOLVED that the 2018/19 progress report for the first eight months of the financial year 2018/19 be noted.

12 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

13 **INTERNAL CONTROL MATTERS PEOPLE AND PLACE DIRECTORATE**

Consideration was given to a report of the Head of Corporate Governance which summarised the internal control matters identified by the Audit and Counter Fraud Team since 1st March 2018 for consideration by managers in the People and Place Directorate.

RESOLVED that the content of the report be noted.

14 **FOLLOW UP ON ANNUAL GOVERNANCE STATEMENT FOR 2017/18 AND NEW ISSUES ON GOVERNANCE IN 2018/19**

The Committee considered a report of the Head of Corporate Governance on the progress made to reduce the risk of issues arising for the Council to address, where matters had been identified as areas requiring improvement in internal control within the Annual Governance Statement for 2017/18.

A verbal update was also provided on new issues on Governance in 2018/19.

RESOLVED that the content of the report and the verbal update be noted.

The meeting started at 6.00 pm and ended at 7.42 pm

This page is intentionally left blank

Report to Audit Committee

Audit Progress Report

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Resources

Officer Contact: Anne Ryans, Director of Finance

Report Author: Mark Stenson, Head of Corporate Governance

Ext. 4783

7 March 2019

Purpose of Report

The report sets out an update on general matters as set out in the attached Audit Progress Report from external audit.

Executive Summary

This is the regular update of matters that external audit wish to share with this Committee.

Recommendations

That Members of the Audit Committee note the Audit Progress Report.

This page is intentionally left blank

Audit Progress Report

Oldham Metropolitan Borough Council

February 2019

MAZARS

CONTENTS

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Since the Committee last met we have:

- had update meetings with finance in respect of the Council's
  - proposed accounting treatments for key areas in the accounts; and
  - assessing the impact of newly applicable accounting standards such as IFRS9 and IFRS15.
- undertaken detailed work to obtain documentation of controls in the Council's key financial systems, including undertaking walkthrough testing of key controls to confirm our understanding of those systems;
- completed our work to obtain an understanding of the processes in place at the Council to produce the 2018/19 financial statements;
- undertaken our interim audit visit and commenced testing in the following areas:
  - payroll and non-pay expenditure transactions and income transactions to the end of December 2018;
  - initial work on the Council's revaluation of land & buildings;
  - additions to the Council's Property, Plant & Equipment balances to the end of December 2018; and
  - agreeing the 2018/19 opening balances to the Council's ledger.
- commenced our detailed audit work for our 2018/19 VFM conclusion; and
- held liaison discussions with Internal Audit colleagues as part of our approach to gain a full and clear understanding of the Council for our 2018/19 audit.

Our detailed audit work will continue in April 2019 when we will carry out discussions with the Council's land & buildings valuer to progress our audit testing of the revaluations. The plans for our final audit visit are underway, and we expect to be on site to carry out our audit testing in late April 2019.

Our work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

Financial Reporting workshop

Mazars is proud to be one of the leading providers of external audit to Local Government. Reflecting our sector-leading position, we held our 2018/19 Financial Reporting workshop in Manchester in February 2019, and the Council finance officers attended and contributed to the discussions.

These workshops are designed to provide Council finance staff with our understanding of the key changes and challenges in the financial reporting requirements for the year. They enable our national Local Government technical experts to reflect their experiences and their discussions with CIPFA and the wider accounting profession, and provide a good networking and discussion opportunity for Councils.

This was our first such event in the North West, and we will discuss feedback with your finance team to ensure future events deliver what is needed for our clients.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
National Audit Office (NAO)			
1	**Local auditor reporting in England 2018**	Main findings reported by auditors in 2017/18.	5-6
2	**Local authorities - governance**	Consideration of VfM and financial sustainability in local authorities.	6
3	**NHS financial sustainability**	Current picture not sustainable and yet to be seen whether spending plans will deliver the change required.	7
4	**A review of the role and costs of clinical commissioning groups**	Organisational stability needed.	8
Public Sector Audit Appointments Ltd (PSAA)			
5	**Local quality audit forum**	December 2018 forum slides available online.	9
6	**Oversight of audit quality, quarterly compliance reports**	No significant issues.	9
Chartered Institute of Public Finance and Accountancy (CIPFA)			
7	**Scrutinising Public Accounts: A Guide to Government Accounts**	Online publication resource available.	10
8	**CIPFA Fraud and Corruption Tracker 2017/18**	Annual report. Increase in fraud detected or prevented.	10
Mazars			
9	**The NHS long-term plan – a summary**	In this briefing on the new NHS long-term plan, we have highlighted the implications of the plan for local government and the key questions that local authorities should be considering.	11-13

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

1. Local auditor reporting in England 2018, National Audit Office, January 2019

Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors.

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors. The report highlights a number of points as summarised below.

- Auditors gave unqualified opinions on financial statements in 2015-16, 2016-17 and 2017-18. This provides assurance that local public bodies are complying with financial reporting requirements. As at 17 December 2018, auditors had yet to issue 16 opinions on financial statements, so this does not yet represent the full picture for 2017-18.

- Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. Again, as at 17 December 2018, auditors had yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18. This level of qualifications reinforces the need to ensure that local auditors' reporting informs as much as possible relevant departments' understanding of the issues facing local public bodies.

- Auditors qualified their conclusions at 40 (8%) of local government bodies. The proportion of qualifications was highest for single-tier local authorities and county councils where auditors qualified 27 (18%) of their value for money arrangements conclusions. The qualifications were for weaknesses in governance arrangements, often also highlighted by inspectorates' ratings of services as inadequate.

- More local NHS bodies received qualified conclusions on arrangements to secure VfM than local government bodies. In 2017-18, auditors qualified 168 (38%) of local NHS bodies' conclusions; up from 130 (29%) in 2015-16, mainly because of not meeting financial targets such as keeping spending within annual limits set by Parliament; not delivering savings to balance the body's budget; or because of inadequate plans to achieve financial balance. The increase between 2015-16 and 2017-18 is particularly steep at clinical commissioning groups, with qualifications for poor financial performance increasing from 21 (10%) in 2015-16 to 67 (32%) in 2017-18.

- Local auditors are using their additional reporting powers, but infrequently. Since April 2015, local auditors have issued only three Public Interest Reports, and made only seven Statutory Recommendations. These Public Interest Reports have drawn attention to issues such as unlawful use of parking income, governance failings in the oversight of a council-owned company, management of major projects or members' conduct. Auditors have made Statutory Recommendations in relation to failing to deliver planned cost savings, poor processes for producing the annual financial statements and failure to address weaknesses highlighted by independent reviews.

- A significant proportion of local bodies may not fully understand the main purpose of the auditor's conclusion on arrangements to secure value for money and the importance of addressing those issues. 102 local public bodies were contacted where auditors had reported concerns about their arrangements to ensure value for money:

  - half of the bodies (51) said that the auditor's report identified issues that they already knew about;

  - fifty-seven (95%) of those responding said they had plans in place to address their weaknesses but only three were able to say that they had fully implemented their plans; and

  - twenty-six (25%) did not respond at all to the NAO's request.

- The extent to which central government departments responsible for the oversight of local bodies have formal arrangements in place to draw on the findings from local auditor reports varies. Processes in the relevant central government departments differ. The Department of Health & Social Care, NHS Improvement and NHS England have arrangements in place to monitor the in-year financial performance of local NHS bodies, and use information from local auditor reports to confirm their understanding of risks in the system. The Home Office and Ministry of Housing, Communities & Local Government consider the output from local auditors' reports to obtain a broad overview of the issues local auditors are raising, but there is a risk that these two departments may be unaware of all relevant local issues.

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

1. Local auditor reporting in England 2018, National Audit Office, January 2019 (continued)

- Under the current local audit and performance framework, there is no direct consequence of receiving a non-standard report from the local auditor. Before 2010, a qualified value for money arrangements conclusion would have a direct impact on the scored assessments for all local public bodies published by the Audit Commission at that time. While departments may intervene in connection with the issues giving rise to a qualification, such as failure to meet expenditure limits, there are no formal processes in place, other than the local audit framework, that report publicly whether local bodies are addressing the weaknesses that local auditors are reporting.

A list of all local bodies that received a non-standard local auditor report for 2017-18 was published alongside the report.

https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/

2. Local authorities - governance, National Audit Office, January 2019

The NAO has recently published a report on local authority governance, which examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

The report finds that local authorities have faced significant challenges since 2010. For example, they have seen a real-terms reduction in spending power of 29% and a 15% increase in the number of children in care. These pressures raise the risk of authorities' failing to remain financially sustainable and deliver services.

The way authorities have responded to these challenges have tested local governance arrangements. Many authorities have pursued large-scale transformations or commercial investments that carry a risk of failure or under-performance and add greater complexity to governance arrangements. Spending by authorities on resources to support governance also fell by 34% in real terms between 2010-11 and 2017-18, potentially increasing the risks faced by local bodies.

In 2017-18, auditors issued qualified VFM arrangements conclusions for around one in five single tier and county councils. A survey, carried out by the NAO, of external auditors indicates that several authorities did not take appropriate steps to address these issues.

Some external auditors have raised concerns about the effectiveness of the internal checks and balances at the local authorities they audit, such as risk management, internal audit and scrutiny and overview. For example, 27% of auditors surveyed by the NAO do not agree that their authority's audit committees provided sufficient assurance about the authorities' governance arrangements. Auditors felt that many authorities are struggling in more than one aspect of governance, demonstrating the stress on governance at a local level.

Some authorities have begun to question the contribution of external audit to providing assurance on their governance arrangements. 51% of chief finance officers from single tier and county councils responding to our survey indicated that there are aspects of external audit they would like to change. This includes a greater focus on the value for money element of the audit (26%). External auditors recognise this demand within certain local authorities. However, their work must conform to the auditing standards they are assessed against and any additional activity may have implications for the fee needed for the audit.

The report also finds that MHCLG does not systematically collect data on governance, meaning it can't rigorously assess whether issues are isolated incidents or symptomatic of failings in aspects of the system. MHCLG recognises that it needs to be more active in leading co-ordinated change across the local governance system. The report recommends that MHCLG works with local authorities and other stakeholders to assess the implications of, and possible responses to, the various governance issues identified. It should examine ways of introducing greater transparency and openness to its formal and informal interventions in local authorities and should adopt a stronger leadership role in overseeing the network of organisations managing key aspects of the governance framework.

https://www.nao.org.uk/report/local-authority-governance-2/

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

3. NHS financial sustainability, National Audit Office, January 2019

This is the NAO's seventh report on the financial sustainability of the NHS. In its recent reports, in December 2015, November 2016 and January 2018, the NAO concluded that financial problems in the NHS were endemic and that extra in-year cash injections to trusts had been spent on coping with current pressures rather than the transformation required to put the health system on a sustainable footing. To address this, local partnerships of clinical commissioning groups (CCGs), NHS trusts and NHS foundation trusts (trusts) and local authorities were set up to develop long-term strategic plans and transform the way services are provided more quickly.

In June 2018, the Prime Minister announced a long-term funding settlement for the NHS, which will see NHS England's budget rise by an extra £20.5 billion by 2023-24. Between 2019-20 and 2023-24, this equates to an average annual real-terms increase of 3.4%. The government asked NHS England to produce a 10-year plan that aims to ensure that this additional funding is well spent. In return for this extra funding, the government has set the NHS five financial tests to show how the NHS will do its part to put the service onto a more sustainable footing.

This report covers 2017-18, so the NAO first concludes on financial sustainability for that year. The NAO considers that the growth in waiting lists and slippage in waiting times, and the existence of substantial deficits in some parts of the system, offset by surpluses elsewhere do not add up to a picture that can be described as sustainable. Recently, the long-term plan for the NHS has been published, and government has committed to longer-term stable growth in funding for NHS England.

In the NAO's view these developments are positive, and the planning approach seen so far looks prudent. The NAO further states that it will really be able to judge whether the funding package will be enough to achieve the NHS' ambitions when we know the level of settlement for other key areas of health spending that emerges from the Spending Review later in the year. This will help inform whether there is enough to deal with the embedded problems from the last few years and move the health system forward.

https://www.nao.org.uk/report/nhs-financial-sustainability/

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

4. A review of the role and costs of clinical commissioning groups, National Audit Office, December 2018

Clinical commissioning groups (CCGs) are clinically-led statutory bodies that have a legal duty to plan and commission most of the hospital and community NHS services in the local areas for which they are responsible. CCGs are led by a Governing Body made up of GPs, other clinicians including a nurse and a secondary care consultant, and lay members. They were established as part of the Health and Social Care Act in 2012 and replaced primary care trusts on 1 April 2013. Since their formation, there have been eight formal mergers of CCGs, which have reduced their number from 211 to 195 as at April 2018. The smallest CCG (Corby) covers a population of 78,000, while the largest (Birmingham and Solihull) covers a population of 1.3 million.

Since commissioning was introduced into the NHS in the early 1990s, there have been frequent changes to the structure of commissioning organisations. This looks set to continue, with the role of CCGs evolving as the NHS pursues a more integrated system across commissioners and providers. Consequently, there are likely to be more CCG mergers and increased collaborative working between CCGs and their stakeholders, for example healthcare providers and local authorities

This review sets out:

- changes to the commissioning landscape before CCGs were established;
- the role, running costs and performance of CCGs; and
- the changing commissioning landscape and the future role of CCGs.

CCGs were created from the reorganisation in how healthcare services are commissioned in the NHS. They were designed to give more responsibility to clinicians to commission healthcare services for their communities and were given resources to do this. NHS England's assessment of CCGs' performance shows a mixed picture. Over half of CCGs were rated either 'outstanding' or 'good', but 42% (87 of 207) are rated either 'requires improvement' or 'inadequate', with 24 deemed to be failing, or at risk of failing. Many CCGs are struggling to operate within their planned expenditure limits despite remaining within their separate running cost allowance. Attracting and retaining high-quality leadership is an ongoing issue.

There has been a phase of CCG restructuring with increased joint working and some CCGs merging. If current trends continue, this seems likely to result in fewer CCGs covering larger populations based around STP footprints. This larger scale is intended to help with planning, integrating services and consolidating CCGs' leadership capability. However, there is a risk that commissioning across a larger population will make it more difficult for CCGs to design local health services that are responsive to patients' needs, one of the original objectives of CCGs.

CCGs have the opportunity to take the lead in determining their new structures. NHS England is expected to set out its vision for NHS commissioning in its long-term plan for the NHS to be published in December 2018. NHS England has said it will step in where CCGs diverge from its vision of effective commissioning. However, it has not set out fully the criteria it will use to determine when to step in.

The NAO's previous work on the NHS reforms brought in under the Health and Social Care Act 2012 highlighted the significant upheaval caused by major organisational restructuring. It is therefore important that the current restructuring of CCGs creates stable and effective organisations that support the long-term aims of the NHS. Following almost three decades of change, NHS commissioning needs a prolonged period of organisational stability. This would allow organisations to focus on transforming and integrating health and care services rather than on reorganising themselves. It would be a huge waste of resources and opportunity if, in five years' time, NHS commissioning is going full circle and undergoing yet another cycle of restructuring.

https://www.nao.org.uk/report/a-review-of-the-role-and-costs-of-clinical-commissioning-groups/

2. NATIONAL PUBLICATIONS – PUBLIC SECTOR AUDIT APPOINTMENTS LTD

5. Local Audit Quality Forum, Public Sector Audit Appointments, December 2018

The Local Audit Quality Forum (LAQF) is a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England. PSAA wants to develop a momentum and a passion for continuous improvement in audit arrangements throughout the entities and sectors for which PSAA has a mandate.

Slides of the Manchester December 2018 event are available on the PSAA website as per the link below.

The theme of the Manchester event was financial resilience and sustainability, a major challenge for all local authorities and police bodies in the current climate and a key strategic concern as bodies prepare 2019/20 budgets and update medium term plans. The event explored:

- the nature and scale of the sustainability challenges facing local bodies;
- the strategies and disciplines which can help to address them successfully; and
- the roles and responsibilities of Chief Finance Officers and Auditors in helping to maintain resilience and sustainability.

https://www.psaa.co.uk/local-audit-quality-forum3/local-audit-quality-forum/

6. Oversight of audit quality, quarterly compliance reports 2018/19 – Quarter 2, Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA, which we are delighted to report shows Mazars being highly rated with nine of the eleven performance measures being rated green. The other two areas: % of Local Government opinion issued, and objections not determined within 9 months, Mazars perform ahead of the All Suppliers results.

https://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/

2. NATIONAL PUBLICATIONS - CIPFA

7. Scrutinising Public Accounts: A Guide To Government Finances, CIPFA, November 2018

This guide provides an overview of the different processes for budgeting and performance reporting in central and local government, health bodies and includes key questions to ask when scrutinising government financial statements using examples based on UK public sector accounts.

This publication is only available online.

https://www.cipfa.org/policy-and-guidance/publications/s/scrutinising-public-accounts-a-guide-to-government-finances

8. CIPFA Fraud and Corruption Tracker 2017/18, CIPFA, October 2018

The CIPFA Fraud and Corruption Tracker (CFaCT) survey gives a national picture of fraud, bribery and corruption across UK local authorities and the actions being taken to prevent it. It aims to:

- help organisations understand where fraud losses could be occurring;
- provide a guide to the value of detected and prevented fraud loss;
- help senior leaders understand the value of anti-fraud activity; and
- assist operational staff to develop pro-active anti-fraud plans.

The 2017/18 report shows that fraud continues to pose a major financial threat to local authorities, with £302m detected or prevented by councils in 2017/18. While this was £34m less than last year's total, the report revealed an overall increase in the number of frauds detected or prevented – up to 80,000, from the 75,000 cases found in 2016/17. Among these cases there are reminders of some of the challenges being faced by local authorities, with the number of serious or organised crime cases doubling to 56, and a significant increase in the amount lost to business rates fraud, which jumped to £10.4m in 2017/18 from £4.3m in 2016/17.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/local-councils-detect-or-prevent-£302m-in-fraud-in-2017-18

2. NATIONAL PUBLICATIONS – MAZARS

9. Summary of NHS long-term plan, Mazars, January 2019

To support local planning, local health systems will receive five-year indicative financial allocations for 2019/20 to 2023/24 and be asked to produce local plans for implementing the commitments set out in the NHS Long Term Plan. But what does it mean for local government?

The Plan recognises that more focus is needed on community care, mental health and wellbeing, reducing health inequalities and preventative care. The implications for local authorities should become clearer with a green paper expected later this year. With NHS revenue funding to grow by an average of 3.4% in real terms a year over the next five years delivering a real term increase of £20.5 billion by 2023/24, this extra spending will need to deal with current pressures and unavoidable demographic change and other costs, as well as new priorities.

Relationships between the NHS and local government could be more challenging since the direct and significant financial relationship with the NHS through the Better Care Fund is facing an overhaul and the extent of structural overhaul facing the NHS, through the advancement of Integrated Care Systems, requires time and effort. In this briefing, we cover:

- System Architecture and Planning
- Prevention and Inequalities
- Out of Hospital Care - Primary/Community Services
- Urgent/ Emergency Care
- Elective Care

Theme	Key features	Implications and questions for local government
System Architecture and Planning	Integrated Care Systems (ICS) will be everywhere by April 2021 with the 'triple integration' of primary and specialist care, physical and mental health services, and health with social care, at a place level with commissioners sharing decisions on planning with providers. Each ICS will have a single set of commissioning decisions at the system level. This will typically involve a single Clinical Commissioning Group (CCG) for each ICS area with CCGs to become leaner, more strategic organisations working with partners, population health, service redesign and delivery of the plan. ICS constitution will involve a partnership board consisting of commissioners, trusts, primary care networks, non-executive chair and an accountable Clinical Director for each Primary Care network. There will also be a new ICS accountability and performance framework to provide a consistent and comparable set of performance measures. It will include a new 'integration index' to measure how joined up the system is. This is interesting as it's the public voice.	Integrated Care Systems will have a key role in working with local authorities at the 'place' level and, through the ICS governance structure, commissioners will make shared decisions with providers on how to use resources, design services and improve population health. A review and revision of the Better Care Fund may have direct financial implications for local authorities, particularly those arrangements where some Better Care Fund streams are used as support funding for social care services. The NHS Plan does recognise social care in terms of pressures it may create on the NHS and the need to continue to support local measures to address rising demand and costs through pooled budgets, personal health and social care budgets and cites the example of the NHS overseeing a pooled budget with a joint commissioning team (Salford model), where the Council Chief Executive is the accountable officer. A Green Paper is expected to provide further clarity.

2. NATIONAL PUBLICATIONS – MAZARS

Theme	Key features	Implications and questions for local government
Prevention and Inequalities	From April 2019, Clinical Commissioning Groups (CCGs) will receive a health inequalities funding supplement, with the possibility of the commissioning of public health services, e.g. health visitors, school nurses, sexual health etc., to return to the NHS. A planned £30 million investment in rough sleepers.	The onus to reduce health inequalities falls to local authorities with the NHS as support. How / will funding flow into local authorities via CCGs or will we need to wait until the next spending review? Investment in the health of rough sleepers is a short-term fix – the wrap around is for local authorities to work on housing, mental health, care and employment.
Out of Hospital Care - Primary/Community Services	There will be a greater proportionate level of investment in Primary care and Community Health Services: with ringfenced local funding equivalent to a £4.5 billion increase by 2023/24. In return, the NHS Plan is expecting: ▪ Fully integrated community support with training and development of multidisciplinary teams in primary and community hubs, including community hospitals. ▪ Integrated teams of GPs, community services and social care. Urgent response and recovery support will be delivered by flexible teams working across primary care and local hospitals, including GPs, allied health professionals, district nurses, mental health nurses, therapists and reablement teams. ▪ More support for Care Homes to address hospital admissions and sub-optimal medication, with an Enhanced Care in Care Homes vanguard model is to be adopted that aims to improve the links between Care Homes and Primary Care through a consistent healthcare team and named practice support, pharmacist led medication reviews, emergency support, and access to records.	When care transfers into the community, there is an increasing need to manage the multiagency points of contact. Having integrated teams implies local authority care workers working alongside private sector GPs and NHS staff: how will referrals, care pathways and advice on alternative services, for example housing, be managed? This also raises the need for some joined up thinking over estates management and the infrastructure of public service assets – where should teams be based? Local authority supply management of care homes becomes more challenging: the resilience of local market is stretched with the cost of care not always making provision financially viable – will any additional funding merely bring back some stability falling short of ambitions for Enhanced Care? Technology becomes increasingly important including considerations for secure data sharing between organisations. Proposals to support advances in home wearables/monitoring technology to predict hospital admission, linked to smart home technology create new forms of the same challenge: who monitors the data and who is it shared with for the person's best interests? With an increase in social prescribing and personal health budgets, local authorities, including park authorities, can provide support through existing provision of leisure and community services. How can you create community engagement and healthier lifestyles?

2. NATIONAL PUBLICATIONS – MAZARS

Theme	Key features	Implications and questions for local government
Urgent/ Emergency Care	The goal is to achieve and maintain an average Delayed Transfers of Care figure of 4,000 or fewer delays. This aims to be achieved by placing therapy and social work teams at the beginning of the acute hospital pathway, with an agreed clinical care plan within 14 hours of admission that includes an expected date of discharge.	A direct and an indirect impact to local authorities for those residents in care or living in local authority housing. There becomes an increasing need for local authorities to dexterously call on partners across the local authority boundary, including the use of existing disabled facilities grant funding, to ensure people can return home safely. The Stoke-on-Trent based Revival Home from Hospital service is working at record levels and is saving the NHS almost £500,000 a year. The service helps people to get home from hospital as quickly as possible by making sure their homes meet their health needs.
Elective Care	An NHS Personalised Care model and expansion of Personal Health Budgets, for example bespoke wheelchairs and community-based packages of personal and domestic support, mental health services, learning disabilities, and those people receiving social care support. There is expected to trained social prescribing professionals connecting people to wider services.	Who is best placed to provide advice on connecting people to wider services? Who is well placed to deliver connected services and is there more space for framework contracts of approved providers for people to draw down from?

A summarised version of the Plan is available to download from our website:

https://www.mazars.co.uk/Home/Industries/Public-Services/Health/NHS-Long-Term-Plan-summary

CONTACT

Director: Karen Murray

Phone: 0161 238 9248
Mobile: 07721 234043
Email: karen.murray@mazars.co.uk

Senior Manager: Alastair Newall

Phone: 0161 238 9243
Mobile: 07909 986776
Email: alastair.newall@mazars.co.uk

MAZARS

Oldham Council

Report to Audit Committee

Data Protection Update

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Corporate Resources

Officer Contact: Anne Ryans, Director of Finance

Ext. 4902

Report Author: Barbara Mulvihill – Data Protection Officer

Ext. 1311

7 March 2019

Purpose of Report

To update Members of the Audit Committee on the Council's progress to implement the Data Protection Act 2018.

Recommendation to the Audit Committee

The Audit Committee is asked to consider and note the contents of the report.

Data Protection update

1 Background

1.1 The revised Data Protection Act 2018 (DP18) introduced with effect from 25 May 2018 brings into effect requirements applicable to the Council in the form of:

- The European Union (EU)'s General Data Protection Regulations (GDPR) with permissible modifications by the UK Government.
- The EU's Law Enforcement Directive. This is part of the EU's data protection reform framework and is separate from the GDPR. This is applicable to the Council as a 'competent authority' for law enforcement purposes.
- The functions and powers of the Information Commissioners Office (ICO).
- Changes in relation to the interface between data protection and the Freedom of Information Act 2000/Environmental Information Regulations 2004.

1.2 The Audit Committee as the appropriate Committee within the Council has received a previous report and agreed to receive reports twice yearly there-after. This is the second update report for 2018/19.

2 Current Position

2.1 The Council's Data Protection Officer continues to provide advice and guidance in relation to the Council, Unity Partnership Ltd, MioCare Group Community Interest Company (CIC) and 54 schools (directly maintained and Academies) based in Oldham. The Information Management Team continues to provide support and expertise across the wider information governance arena, e.g., information security, Freedom of Information requests and records management for these organisations.

2.2 The role, membership and frequency of the Project Board, overseeing the implementation of the revised DP18, has been reviewed as reported to this Audit Committee meeting in September 2018. It has been agreed that this Board will continue to meet every two months to review the progress made on implementing the requirements of DP18 so it can where appropriate make recommendations linked into DP18 for the Council, MioCare Group CIC, the Unity Partnership Ltd and the 54 schools.

2.3 The Council's phase 1 plan to implement DP18, which has been closed with the appropriate residual items and risks transferred to the phase 2 plan, is detailed in Appendix 1. MioCare Group CIC and the Unity Partnership Ltd have their own agreed plans and support is being provided to enable progress to be made in these wholly owned companies. There is a high level plan for the delivery of the support to the 54 schools, which are working in partnership with the Council on DP18. Progress with regard to Phase 2 of the Council's plan is detailed in Appendix 2 to this report.

2.4 The potential impact of Brexit on information sharing is uncertain at the time of writing. As and when the impact becomes clearer this will need to be factored into the plans of the Council and other bodies as appropriate. This will be reported back to the Audit Committee.

3 **Options/Alternatives**

3.1 There is one option presented for consideration which is that:

The Audit Committee considers and notes the contents of this report.

4 **Preferred Option**

4.1 The preferred option is that the Audit Committee considers and notes this report.

5 **Consultation**

5.1 Officers of the Council have been consulted in the preparation of this report.

6 **Financial Implications**

6.1 N/A

7 **Legal Services Comments**

7.1 N/A

8 **Co-operative Agenda**

8.1 Committed to the Borough - to visibly demonstrate that the Council is taking steps to ensure legal compliance.

9 **Human Resources Comments**

9.1 N/A

10 **Risk Assessments**

10.1 The Council needs to report to an appropriate member body on the implementation of DP18 which is this Committee. There are no specific matters to bring to the attention of the Committee at this point in time. (Mark Stenson)

11 **IT Implications**

11.1 N/A

12 **Property Implications**

12.1 N/A

13 **Procurement Implications**

13.1 N/A

14 **Environmental and Health & Safety Implications**

14.1 N/A

15 **Equality, community cohesion and crime implications**

15.1 N/A

16 **Equality Impact Assessment Completed?**

16.1 No, as a result of an EIA screening it was determined that a full EIA was not required.

17 **Key Decision**

17.1 No

18 **Key Decision Reference**

18.1 N/A

19 **Background Papers**

19.1 None

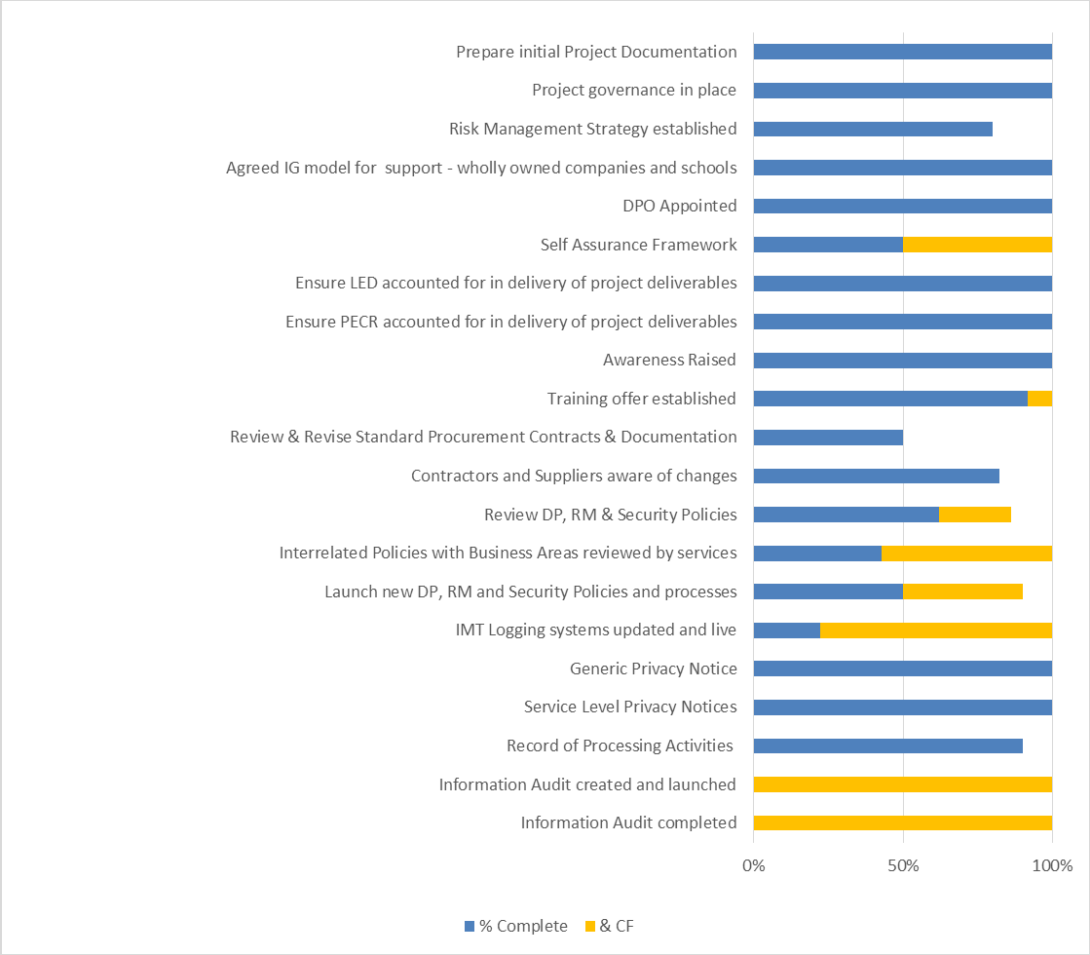
20 **Appendices**

- Appendix 1 – Phase 1 Plan progress
- Appendix 2 – Phase 2 Council Plan

Appendix 1

Phase 1 Plan progress

Illustration of Phase 1 Council Plan–completed and carried forward items to Phase 2



Key:

IG	Information Governance
DPO	Data Protection Officer
LED	Law Enforcement Directive
PECR	Privacy & Electronic Communications Regulations
DP	Data Protection
RM	Records Management
IMT	Information Management Team

Appendix 2

Phase 2 Council Plan

Overview of key elements of Council Phase 2 plan are set out below and accompanied by a high level milestone BRAG rating.

Phase 2 of the plan builds on the success of Phase 1 plan and integral to the plan is the delivery of the agreed collaborative approach with MioCare Group CIC, the Unity Partnership and Schools. It has the following elements:

Self Assurance Framework

The intention is to develop a self–policing framework in order to provide initially high level assurances/action plans, and as time progresses involve services in reviewing specific activities. See Milestones 1 and 2.

Training and Awareness

The implementation of a data protection e-learning module has provided resources for staff not just to make them aware of the changes, but also provides a refresher source of training and for new staff at induction. Milestone 4 requires staff to be suitably trained and there will be additional e-learning modules introduced specifically in relation to cyber security and data sharing.

Further e-learning modules are planned to be developed over the coming year.

Data Protection Policies

Work continues to supplement the existing suite of policies and guidance in line with best practice and to incorporate the requirements of the Law Enforcement Directive.

Milestones 5, 6, 7, 10, 11 and 12 all relate to policy development and implementation. In summary, both the Data Protection Policy and Individual Rights Policy have been updated to incorporate the Law Enforcement Directive Policy. There is more action required to revise/create specific policies in relation to data subject access, data sharing and Privacy Impact Assessment (PIAs) together with Freedom of Information (FOI) policy reviews.

Records of Processing Activities (ROPA)

Work continues to develop a comprehensive ROPA and to establish an effective way going forward as to review and maintenance. With regard to Milestones 8 and 14, a review of the current ROPA is underway and the review of future form needs to consider whether or not an information audit would enable a comprehensive information asset register and ROPA.

Information Governance Logging Systems Development

The existing systems facilitate request and breach management, i.e., tracking and performance management. These are being reviewed to update the systems in relation to changes in legislation, i.e., terminology, timelines, reporting etc. See Milestone 13.

Delivery of Continuing Support to Key Partners

The schools plan is focused on providing model policies, training and a self-assurance framework to assist schools in demonstrating compliance and developing action plans. Advice is provided as required on a range of issues.

The Unity Partnership and MioCare Group CIC plans are similar in that they are focused on assisting them to develop policies, ROPA's, privacy notices, the facilitation of training and guidance.

The overall assessment of progress on Phase 2 is detailed in the Table below:

#	High Level Milestone	BRAG
1	Project Governance	A
2	Establish Self Assurance framework	G
3	Public awareness	B
4	Staff suitably trained	G
5	DP Policies in place	G
6	Data Protection embedded in service processes	A
7	DP Policy supplemental	G
8	Up to date ROPA	G
9	Up to date Privacy Notices	G
10	Special Data Appropriate policy	A
11	Law Enforcement Directive Policy	G
12	FOI	G
13	Effective Data protection logging systems	A
14	Information Asset Register/alternative ROPA	G

Plans are in place to progress the above with a view to moving any Amber related activities to Green.

This page is intentionally left blank

Report to Audit Committee

Treasury Management Strategy Statement 2019/20

Including Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Resources

Officer Contact: Anne Ryans, Director of Finance

Report Author: Lee Walsh, Finance Manager
Ext. 6608

7 March 2019

Purpose of Report
The report sets out the 2019/20 Treasury Management Strategy (including Minimum Revenue Provision policy statement, annual investment strategy and prudential indicators together with linkages to the Capital Strategy). It is presented to enable members of the Audit Committee to consider and comment upon the report.

Executive Summary

The Council is required through regulations supporting the Local Government Act 2003 to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. It is also required to produce an annual Treasury Strategy for borrowing and to prepare an Annual Investment Strategy setting out the Council's policies for managing its investments and for giving priority to security and liquidity of those investments.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2017 (the Code) also requires the receipt by full Council of a Treasury Management Strategy Statement.

In 2017 the Chartered Institute of Public Finance & Accountancy (CIPFA) issued revised Prudential and Treasury Management Codes. The main requirement was that for 2019/20, all Local Authorities have to prepare an additional report, a Capital Strategy report. The Council has traditionally prepared a Capital Strategy, however under the new guidance additional disclosures have been added to ensure compliance. The Capital Strategy is referenced within the 2019/20 Treasury Management Strategy.

The attached report meets the current statutory requirements and complies with both the revised Code and the CIPFA Prudential Code of Capital Finance in Local Authorities (the Prudential Code).

The report at Appendix 1 is presented to the Audit Committee to enable it to have the opportunity to review the 2019/20 Treasury Management Strategy. It should be noted that the report has already been approved by Cabinet on 11 February 2019 and was considered by Council on 27 February 2019.

Recommendations

That Members of the Audit Committee consider and comment upon the Treasury Management Strategy for 2019/20 that was presented to Council on 27 February 2019.

Appendix 1

Report to Council

Treasury Management Strategy Statement 2019/20

Including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Resources

Officer Contact: Anne Ryans, Director of Finance

Report Author: Lee Walsh, Finance Manager

Ext. 6608

27 February 2019

Reason for Decision

To present to Council, the strategy for 2019/20 Treasury Management activities including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

Executive Summary

The report outlines the Treasury Management Strategy for 2019/20 including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators together with linkages to the Capital Strategy.

The Strategy for 2019/20 covers two main areas:

Capital Issues:

- The Capital Expenditure Plans and the associated Prudential Indicators
- The Minimum Revenue Provision (MRP) Policy Statement

Treasury Management Issues:

- The Current Treasury Position
- Treasury Indicators which limit the treasury risk and activities of the Council
- Prospects for Interest Rates
- The Borrowing Strategy
- The Policy on Borrowing in Advance of Need
- Debt Rescheduling
- The Investment Strategy
- The Creditworthiness Policy
- The Policy regarding the use of external service providers

The report therefore outlines the implications and key factors in relation to each of the above Capital and Treasury Management issues and makes recommendations with regard to the Treasury Management Strategy for 2019/20.

The proposed Treasury Management Strategy was presented for scrutiny to the Overview and Scrutiny Performance and Value for Money Select Committee on 24 January 2019. The Select Committee was content to commend the report to Cabinet. It should be noted that the report was subsequently updated to reflect revised Capital Expenditure projections and associated Prudential Indicators prior to presentation to Cabinet. Cabinet duly considered and approved the report at its meeting on 11 February 2019 and commended the report to Council.

Recommendation

That Council approves the:

1. Capital Expenditure Estimates as per paragraph 2.1.2;
2. MRP policy and method of calculation as per Appendix 1;
3. Capital Financing Requirement (CFR) Projections as per paragraph 2.2.4;
4. Projected treasury position as at 31/03/2019 as per paragraph 2.3.4;
5. Treasury Limits as per section 2.4;
6. Borrowing Strategy for 2019/20 as per section 2.6;
7. Annual Investment Strategy as per section 2.10 including risk management and the creditworthiness policy at section 2.11; and
8. Level of investment in specified and non-specified investments detailed at Appendix 5.

Treasury Management Strategy Statement 2019/20 including the Minimum Revenue Provision Policy Statement, Annual Investment Strategy and Prudential Indicators

1 Background

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low investment risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.5 Treasury management is defined as:

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

Source: CIPFA Treasury Management in the Public Service's Code of Practice.

1.6 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The Council has traditionally prepared a Capital Strategy in line with good practice, however additional disclosures have been added for 2019/20 to ensure it is compliant with all the revised guidance and aligns fully with the issues outlined in the Treasury Management Strategy.

1.7 Reporting Requirements – Capital Strategy

1.7.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all Local Authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

1.7.2 The Capital Strategy is therefore prepared to ensure that all Council Members are presented with the overall long term capital investment policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.7.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments, usually driven by expenditure on an asset. Specifically in relation to non-treasury investments, the capital strategy includes, where appropriate:

- The corporate governance arrangements;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution to support the Councils budget;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value; and
- The risks associated with each activity.

1.7.4 Where a physical asset is being bought, details of market research, advisers used (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.7.5 Should the Council borrow to fund any non-treasury investment, there will be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to (note, to date there has been no such borrowing).

1.7.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy (again, to date there have been no such losses).

1.7.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.8 Treasury Management reporting

1.8.1 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. Prudential and treasury indicators and treasury strategy (this report)

The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);

- a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised), including treasury indicators; and
- an Investment Strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report

This is primarily a progress report and will update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report

This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.8.2 The above reports are required to be adequately scrutinised before being recommended to the Council. The Overview and Scrutiny Performance and Value for Money (PVFM) Select Committee scrutinises the Treasury Management Strategy Statement report together with all the other reports which are presented to the annual Budget Council meeting. The Audit Committee, the body charged with the detailed scrutiny of Treasury Management activities, will also consider this report and the mid-year and annual review reports.

1.9 Treasury Management Strategy for 2019/20

1.9.1 The strategy for 2019/20 covers two main areas:

1.9.2 Capital issues:
- the capital expenditure plans and the associated prudential indicators; and
- the Minimum Revenue Provision (MRP) policy statement.

1.9.3 Treasury management issues:
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy regarding the use of external service providers.

1.9.4 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.10 Training

1.10.1 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training was provided to Cabinet Members and Senior Council Officers on 22 October 2018. The Audit Committee receive

regular updates regarding any issues that affect Treasury Management. Further training will be arranged as required.

1.10.2 The training needs of treasury management officers are periodically reviewed. The team is staffed by professionally qualified accountants with extensive Local Government finance experience. Team members attend all relevant training courses, workshops and events to ensure that their knowledge and skills are up to date and the Council is in a position to address all new technical developments. They all follow a Continuous Professional Development Plan (CPD) as part their individual accounting body accreditation. The overall responsibility for capital and treasury activities lies with the Council's Section 151 officer who, in accordance with statute, is professionally qualified and is suitably experienced to hold the post.

1.11 Treasury Management Consultants

1.11.1 The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

1.11.2 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 the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

1.11.3 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 will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

1.11.4 Commercial type investments will require specialist advice that Link Asset Services do not provide. Prior to any commercial investments being made external advice will be sought and due diligence will be undertaken.

2 Capital Plans & Prudential Indicators 2019/20 – 2021/22

2.1 Capital Plans

2.1.1 The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in Prudential Indicators, which are designed to assist Members' overview and confirm capital expenditure plans. These indicators as per the Capital Programme include previous years' actual expenditure, forecast expenditure for this current year 2018/19 and estimates for the next three year period, the timeframe required by CIPFA's guidance.

Capital Expenditure Estimates

2.1.2 This first Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Council is asked to consider the capital expenditure forecasts included the table below:

Table 1 - Capital Expenditure Estimates

Capital Expenditure	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Corporate and Commercial Services *	1,463	14,174	9,212	1,583	1,719
Health and Wellbeing	1,493	0	0	0	0
Health & Adult Social Care					
Community Services	0	1,894	2,682	1,400	400
Economy, Skills and Neighbourhoods	22,058	0	0	0	0
People & Place	0	31,265	54,403	63,081	70,544
Reform	0	216	100	100	700
Funds yet to be allocated	0	306	5,000	3,000	1,500
General Fund Services	**25,014**	**47,855**	**71,397**	**69,164**	**74,863**
Housing Revenue Account (HRA)	789	1,097	4,235	1,632	922
HRA	**789**	**1,097**	**4,235**	**1,632**	**922**
Commercial Activities / Non-Financial Investments **	0	0	8,700	6,910	5,000
Commercial Activities / Non-Financial Investments	**0**	**0**	**8,700**	**6,910**	**5,000**
Total	**25,803**	**48,952**	**84,332**	**77,706**	**80,785**

* Excludes commercial activities which are included in the Corporate and Commercial Services capital programme

** Relate to areas such as capital expenditure on investment properties, loans to third parties etc.

2.1.3 The capital expenditure shown above excludes other long term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments. It should be noted that any new expenditure commitments are likely to increase the borrowing requirement.

2.1.4 Table 2 below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

2.1.5 The borrowing need for capital expenditure in 2019/20 is currently expected to be £26.713m. This will however change if there is a revision to the spending profile of the capital programme.

2.1.6 As at the present time, the Council has not invested in any property purchases solely for the generation of additional income. To date the Council's property acquisitions have been undertaken for the regeneration of the borough with income generation a secondary consideration. The commercial activities/non-financial investment in table 1 above from 2019/20 relates to current estimated spend in the capital programme.

Table 2 - Funding of the Capital Programme

Capital Expenditure	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £'000
General Fund Services	25,014	47,855	71,397	69,164	74,863
HRA	789	1,097	4,235	1,632	922
Commercial Activities	0	0	8,700	6,910	5,000
Total	**25,803**	**48,952**	**84,332**	**77,706**	**80,785**
Financed by:					
Capital receipts	(6,780)	(5,793)	(19,042)	(4,306)	(8,629)
Capital grants	(10,821)	(16,068)	(34,661)	(25,375)	(17,776)
Revenue	(7,458)	(8)	(67)	(73)	0
HRA Resources	(744)	(88)	(3,849)	(4,033)	(5,822)
Net financing need for the year	**0**	**26,995**	**26,713**	**43,919**	**48,558**

2.1.7 All other prudential indicators included within this report are based on the above capital estimates.

2.2 <u>The Council's Borrowing Need - the Capital Financing Requirement (CFR)</u>

2.2.1 The second Prudential Indicator is the Council's CFR. The CFR represents total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been financed from cash backed resources, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the Council makes 'prudent' provision for debt repayment which broadly reduces indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used. The approach to making prudent provision is set out in the MRP Policy Statement at Appendix 1.

2.2.3 The MRP policy for 2019/20 has not been amended since its inclusion in Appendix 1 in the 2018/19 Treasury Management Strategy report approved at Council on 28 February 2018.

2.2.4 The CFR includes other long term liabilities (e.g. Private Finance Initiative (PFI) schemes, finance leases etc.). Whilst these arrangements increase the CFR, and therefore the Council's borrowing requirement, such schemes also include a 'loan' facility meaning the Council is not required to make separate borrowing arrangements. The Council currently has a net figure of £235.396m of such schemes within the CFR for 2019/20, decreasing to £213.263m in 2021/22.

Table 3 - Capital Financing Requirement (CFR)

Capital Financing Requirement (CFR)	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
CFR - Services	505,049	519,540	520,005	536,418	562,162
CFR - Commercial Activities	0	0	5,000	10,000	10,000
Total CFR	**505,049**	**519,540**	**525,005**	**546,418**	**572,162**
Movement in CFR	**(16,741)**	**14,491**	**5,465**	**21,413**	**25,744**
Movement in CFR represented by:					
Net financing need for the year	**0**	**26,995**	**26,713**	**43,919**	**48,558**
PFI Additions	379	0	0	0	0
Less MRP/VRP and other financing movements	(17,120)	(12,504)	(21,248)	(22,506)	(22,814)
Movement in CFR	**(16,741)**	**14,491**	**5,465**	**21,413**	**25,744**

2.3 Borrowing

2.3.1 The capital expenditure plans set out in section 2.1 to a large extent drive the borrowing estimates included in this report. The Treasury Management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant Treasury and Prudential Indicators, the current and projected debt positions and the Annual Investment Strategy.

Current Borrowing Portfolio Position

2.3.2 The overall treasury management portfolio as at 31 March 2018 and for the position as at February 2019 are shown below for both borrowing and investments:

Table 4 - Current Treasury Position

Treasury Investments	Actual 31/03/2018 £000	Actual 31/03/2018 %	Current February 2019 £000	Current February 2019 %
Banks	20,000	27.16%	21,000	24.30%
Building Societies Rated	0	0.00%	0	0.00%
Local Authorities	25,000	33.94%	26,000	30.09%
Public Bodies	0	0.00%	0	0.00%
Money Market Funds	13,650	18.53%	24,420	28.26%
Total Managed in House	**58,650**	**79.63%**	**71,420**	**82.64%**
Property Funds	15,000	20.37%	15,000	17.36%
Total Managed Externally	**15,000**	**20.37%**	**15,000**	**17.36%**
Total Treasury Investments	**73,650**	**100.00%**	**86,420**	**100.00%**
Treasury External Borrowing				
PWLB	15,482	10.47%	15,482	10.47%
LOBO'S	85,500	57.83%	85,500	57.83%
Market	46,601	31.52%	46,601	31.52%
Temporary other	268	0.18%	266	0.18%
Total Treasury External Borrowing	**147,851**	**100.00%**	**147,849**	**100.00%**
Net Treasury Investments / (Borrowing)	**(74,201)**		**(61,429)**	

2.3.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, the Treasury Management operations against the underlying capital borrowing need, the CFR, highlighting any over or under borrowing.

2.3.4 Table 5 shows the forecast position of gross borrowing as at 31 March 2019 at £393.992m and an under borrowed position of £125.548m. Council is asked to note the expected year end position.

Table 5 – Current and Forecast Treasury Portfolio

	2017/18 Actual £000	Forecast position as at 31/03/19 £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
External Debt					
Debt at 1st April	147,866	147,851	147,849	167,849	200,349
Expected change in debt	(15)	(2)	20,000	32,500	58,500
Other long-term liabilities	263,947	256,115	246,143	235,395	224,125
Expected change in OLTL*	(7,832)	(9,972)	(10,747)	(11,270)	(10,862)
Actual gross debt at 31 March	**403,966**	**393,992**	**403,245**	**424,474**	**472,112**
The Capital Financing Requirement	**505,049**	**519,540**	**525,005**	**546,418**	**572,162**
Under / (over) borrowing	**101,083**	**125,548**	**121,760**	**121,944**	**100,050**

* Other Long Term Liabilities

2.3.5 Table 5 above shows the Council will need to undertake significant additional borrowing in future years if capital programme expenditure matches the anticipated spending profile. The borrowing requirement is a key driver of the borrowing strategy as set out in section 2.6 below. However, the Council has yet to draw down additional borrowing and the timing of the borrowing is being closely monitored. Members will recall that capital spending plans have been re-profiled year on year and it is possible that the trend could be repeated in 2019/20.

2.3.6 Included within the figures above is the level of debt relating to commercial activities / non-financial investment and this is shown separately in Table 6 below. This is a new requirement and shows a minimal impact to date on debt of potential investments in commercial activities.

Table 6 - Commercial Activities Debt

	2017/18 Actual £000	Forecast position as at 31/03/19 £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
External Debt for commercial activities / non-financial investments	0	0	3,700	10,610	15,610
Actual Debt at 31 March	147,851	147,849	167,849	200,349	258,849
Percentage of total external debt	**0.00%**	**0.00%**	**2.20%**	**5.30%**	**6.03%**

2.3.7 There are a number of key Prudential Indicators to ensure that the Council operates its activities within well-defined limits. The Council must ensure that gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes. It is clear from Table 5 above that the Council's gross borrowing position remains within these limits.

2.3.8 The Council has complied with this Prudential Indicator in the current year and does not envisage any difficulties with compliance in the future. This view takes into account current commitments, existing plans, and the proposals set out in this report.

2.4 Treasury Limits for 2019/20 to 2021/22

2.4.1 The Council is required to determine its operational boundary and authorised limit for external debt for the next three financial years.

Operational Boundary

2.4.2 The forecast operational boundary for 2018/19 together with the proposed operational boundaries for 2019/20 to 2021/22 are set out in Table 7 below. The boundary reflects the maximum anticipated level of external debt which is not expected to be exceeded. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on levels of actual debt and the ability to fund under-borrowing by other cash resources. This boundary will be used as a management tool for ongoing monitoring of external debt, and may be breached temporarily due to unusual cash flow movements. However a sustained or regular trend above the operational boundary should trigger a review of both the operational boundary and the authorised limit.

Table 7 - Operational Boundary

Operational boundary	2018/19 Forecast £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Borrowing	280,000	285,000	312,000	345,000
Other long term liabilities	245,000	235,000	225,000	215,000
Commercial activities / non-financial investments	0	5,000	10,000	15,000
Total	**525,000**	**525,000**	**547,000**	**575,000**

Authorised Limit

2.4.3 A further key Prudential Indicator, the Authorised Limit, controls the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit may only be determined by the full Council. It reflects the level of external debt which, while not desirable, is affordable in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

2.4.4 Council is asked to approve on the proposed Operational Boundary for each financial year from 2018/19 to 2021/22 as set out in Table 7 above and Authorised Limit as set out in Table 8 below:

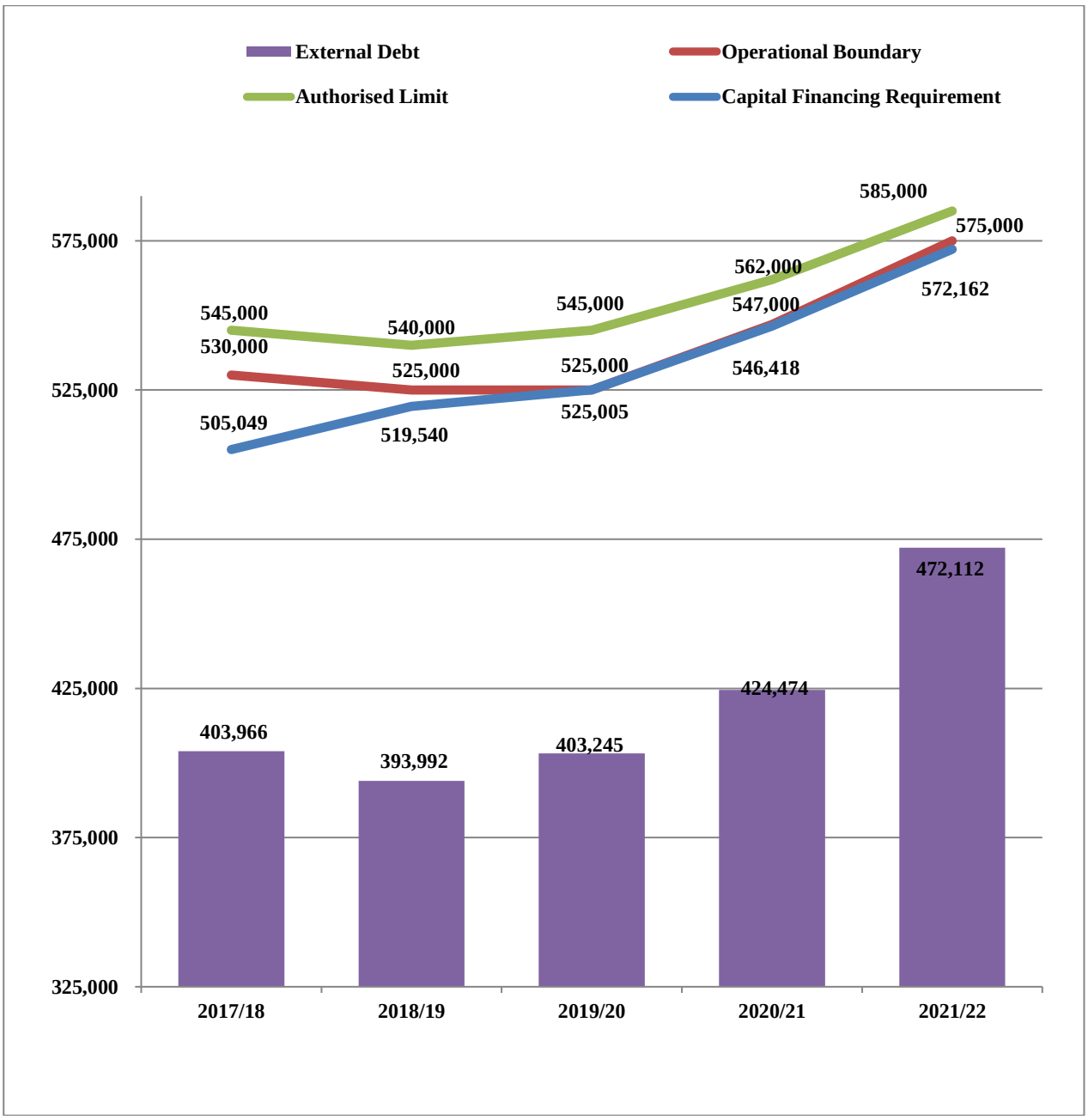
Table 8 - Authorised Limit

Authorised Limit	2018/19 Forecast £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Borrowing	290,000	290,000	317,000	350,000
Other long term liabilities	250,000	240,000	230,000	220,000
Commercial activities / non-financial investments	0	15,000	15,000	15,000
Total	**540,000**	**545,000**	**562,000**	**585,000**

2.4.5 The table and graphs below disclose how the two indicators above, the Operational Boundary and the Authorised Limit compare to actual external debt and the CFR.

Table 9 Estimate Capital Financing Requirement

Capital Financing Requirement (CFR) including PFI and finance leases	Actual 2017/18 £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
General Fund CFR	505.0	520.0	520.0	536.0	562.0
Commercial activity / non-financial investments	0.0	0.0	5.0	10.0	10.0
Total CFR	**505.0**	**519.5**	**525.0**	**546.4**	**572.2**
External Borrowing	147.9	147.8	167.8	200.3	258.8
Other long term liabilities	256.1	246.1	235.4	224.1	213.3
Total Debt	**404.0**	**394.0**	**403.2**	**424.5**	**472.1**
Operational Boundary	530.0	525.0	525.0	547.0	575.0
Authorised Limit	545.0	540.0	545.0	562.0	585.0



2.5 Prospects for Interest Rate

2.5.1 The Council has appointed Link Asset Services as its Treasury Adviser and part of its service is to assist the Council to formulate a view on interest rates. The table below gives Link Asset Services central view of interest rates from March 2019 to March 2022.

Table 10 - Interest Rate Forecast

Timeline	Bank Rate	PWLB Borrowing Rates %			
	%	5 year	10 year	25 year	50 year
March 2019	0.75	1.80	2.20	2.70	2.50
June 2019	0.75	1.90	2.30	2.80	2.60
September 2019	1.00	2.00	2.40	2.90	2.70
December 2019	1.00	2.10	2.50	3.00	2.80
March 2020	1.00	2.20	2.60	3.10	2.90
June 2020	1.25	2.30	2.60	3.20	3.00
September 2020	1.25	2.30	2.70	3.20	3.00
December 2020	1.25	2.40	2.80	3.30	3.10
March 2021	1.50	2.50	2.90	3.40	3.20
June 2021	1.50	2.50	2.90	3.40	3.20
September 2021	1.75	2.60	3.00	3.50	3.30
December 2021	1.75	2.60	3.00	3.50	3.30
March 2022	2.00	2.70	3.00	3.60	3.40

2.5.2 2018 was a year which started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% in quarter 2 followed by quarter 3 being exceptionally strong at +0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit uncertainty and came in at only +0.2%. Growth is likely to continue being weak until the Brexit uncertainty clears.

2.5.3 The above forecasts are based on a major assumption that Parliament and the EU agree an orderly Brexit, either by 29 March or soon after. At their 7 February meeting, the Monetary Policy Committee (MPC) repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they have given a figure for this of around 2.5% in ten years' time but have declined to give a medium term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit.

2.5.4 While it would be expected that Bank Rate could be cut if there was a significant fall in Gross Domestic Product (GDP) growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they could also raise Bank Rate in the same scenario if there was a boost to inflation from increases in import prices, devaluation of sterling, and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could provide fiscal stimulus to boost growth.

2.5.5 The overall longer run future trend is for gilt yields, and consequently Public Works Loan Board (PWLB) rates, to rise, albeit gently. However, over about the last 25 years, there has been a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of Government and other debt after the financial crash of 2008.

2.5.6 Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, there was the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US Government deficit aimed at stimulating even stronger economic growth.

2.5.7 That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the US Federal Reserve (Fed) has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018.

2.5.8 It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. US 10 year bond Treasury yields rose above 3.2% during October 2018 and investors have caused a sharp fall in equity prices as they sold out of holding riskier assets.

2.5.9 However, US 10 year bond yields have subsequently fallen back on fears that the Fed could be too aggressive in raising interest rates and was going to cause a recession. More recent comments from the Fed have indicated that the chances of more than one further increase after the December increase have considerably diminished and there is some doubt around even one more increase. Equity prices have been very volatile on alternating good and bad news during this period.

2.5.10 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

2.5.11 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year.

2.5.12 Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

2.5.13 Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

2.5.14 Borrowing interest rates have been volatile so far in 2018/19 and while they were on a rising trend during the first half of the year, they have fallen significantly since then. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when Authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt. The Council will be mindful of this in considering its borrowing arrangements.

2.5.15 There will remain a cost of carry (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

2.6 <u>Borrowing strategy</u>

2.6.1 The factors that influence the 2019/20 strategy are:

- The movement in CFR as set out in Table 3 above;
- Forthcoming ‘Option’ dates on £44m of Lender Option Borrower Option loans (LOBO’s) in 2019/20;

- The interest rate forecasts (set out in Table 10 above);
- Aiming to minimise revenue costs to reduce the impact on the Council Tax Requirement and;
- The impact of the Council's Capital and Property Investment Programmes.

2.6.2 The Council is currently maintaining an under-borrowed position. This means that the CFR has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. However, as interest rates are low, as advised in 2.5.13-15 consideration will be given to taking advantage of this by securing fixed rate funding and reducing the under borrowed position.

2.6.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Treasury Management team will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances so that:

- if it was considered that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was considered that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. The likely action would be that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

2.6.4 The gross borrowing requirement in Table 5 at 2.3.4 above shows, based on current estimates, that the Council will need to drawdown a significant amount of new borrowing, to support the capital programme. Any additional borrowing will be completed with regard to the limits, indicators and interest rate forecasts set out above. As noted previously, estimates of borrowing have changed in previous years due to the reprofiling of the capital programme.

2.6.5 During 2019/20, £44m of LOBO (Lender Option Borrower Option) debt will reach the option renewal date. Table 11 below, sets out the maturity structure of fixed rate debt. At the renewal date the loans will either:

- Move to the option rate of interest, which in all cases will be the same as the current rate or:
- Be offered at a rate above the option rate, in which case the Council has the option to repay. This would then require refinancing at the prevailing market rates.

Table 11 - Maturity Structure of Fixed Rate Debt

Maturity Structure of fixed interest rate debt	2019/20 Actual
under 12 months	29.94%
12 months and within 24 months	10.31%
24 months and within 5 years	22.39%
5 years and within 10 years	5.07%
10 years to 20 years	5.24%
20 years to 30 years	0.00%
30 years to 40 years	3.38%
40 years to 50 years	10.15%
50 years to 60 years	13.53%
60 years and above	0.00%

2.6.6 Due to the current interest rate forecast it is not anticipated that any of these LOBO loans will be called over the period 2019/20 to 2021/22.

2.6.7 The 2019/20 capital programme now shows anticipated prudential borrowing of £119.190m over the period 2019/20 to 2021/22 with £26.713m in 2019/20, £43.919m in 2020/21 and £48.558m in 2021/22. These figures have been reflected in this report and factored into the borrowing strategy for 2019/20 and future years.

2.6.8 Members are advised that indicators for interest rate exposure are no longer a requirement under the new Treasury Management Code however as interest rate exposure risk is an important issue. Officers will monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.

2.6.9 This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.

2.6.10 The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

2.7 <u>Policy on Borrowing in Advance of Need</u>

2.7.1 The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

2.7.2 Borrowing in advance will be made within the constraint that the Council would not look to borrow more than 24 months in advance of need.

2.7.3 Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.8 Debt Rescheduling

2.8.1 As short term borrowing rates are considerably lower than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the prevailing treasury position and the size of the cost of debt repayment (premiums incurred).

2.8.2 The reasons for any rescheduling to take place will include:
- the generation of cash savings and/ or discounted cash flow savings;
- helping to fulfil the Treasury Strategy; and
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

2.8.3 Consideration will also be given to identifying if there is any residual potential for making savings by reducing investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

2.8.4 All re-scheduling will be reported to Cabinet and Council at the earliest meeting following its action.

2.9 Local Capital Finance Company (originally Municipal Bond Agency)

2.9.1 It is possible that Local Capital Finance Company will be offering loans to Local Authorities in the future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB).

2.9.2 The Council has currently invested £0.100m in the Company and intends to make use of this new source of borrowing as and when appropriate.

2.10 Annual Investment Strategy

Investment Policy – Management of Risk

2.10.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

The Council's investment policy has regard to the following: -
- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

2.10.2 The Council's investment priorities will be:
- firstly, the security of capital;
- secondly, the liquidity of its investments;
- thirdly, the optimum return on its investments commensurate with proper levels of security and liquidity; and
- finally, ethical investments.

2.10.3 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

- Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

2.10.4 This Council has defined the list of types of investment instruments that the Treasury Management team are authorised to use. There are two lists in Appendix 5 under the categories of ‘specified’ and ‘non-specified’ investments.

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

2.10.5 For non-specified investments, the Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.

2.10.6 Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 2.11.3 (Table 12).

2.10.7 Transaction limits are set for each type of investment in 2.11.3.

2.10.8 The Council has set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 2.13.7).

2.10.9 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating (see paragraph 2.12.3) and Appendix 6.

2.10.10 The Council has engaged external consultants, (see paragraph 1.11), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

2.10.11 All investments will be denominated in sterling.

2.10.12 As a result of the change in accounting standards for 2018/19 under IFRS 9, consideration will be given to the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, MHCLG concluded a consultation and agreed for a temporary override to allow English Local Authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from April 2018).

2.10.13 However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 2.14). Regular monitoring of investment performance will be carried out during the year.

2.10.14 The above risk management criteria are unchanged from last year.

2.11 Creditworthiness policy

2.11.1 Oldham Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poor. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.11.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration and maximum investment value for each counterparty.

2.11.3 Institutions are split into colour bandings and the Council will therefore use counterparties within these colours, durational bands and investment limits. Table 12 below shows these limits.

Table 12 - Investment Criteria

Counter Party	Link Colour Band and Long Term Rating where applicable	Maximum Duration	Maximum Principal Invested per Counterparty
Banks	Yellow (Note 1)	5 Years	£10m
Banks	Dark Pink (Note 2)	5 Years	£10m
Banks	Light Pink (Note 3)	5 Years	£10m
Banks	Purple	2 Years	£20m
Banks	Blue (Note 4)	1 Year	£20m
Banks	Orange (Note 5)	1 Year	£15m
Banks	Red	6 months	£10m
Banks	Green	100 days	£10m
Banks	No Colour	Not to be used	Not to be used
Local Authorities/ Public Bodies	Internal Due Diligence	5 Years	£10m
GMCA	Internal Due Diligence (Note 6)	5 Years	£30m
Debt Management Account Deposit Facility (DMADF)	UK Sovereign rating	6 months	£20m
	Fund Rating	**Maximum Duration**	**Maximum Principal Invested per Counterparty**
Money Market Fund			
Constant	AAA	Liquid	£20m
Low Volatile	AAA	Liquid	£20m
Variable	AAA	Liquid	£20m

Note 1 – UK Government debt or equivalent

Note 2 – Enhanced money market funds (EMMF) with a credit score of 1.25

Note 3 – Enhanced money market funds (EMMF) with a credit score of 1.5

Note 4 – Blue Institutions only applies to nationalised or semi nationalised UK Banks, which currently include the RBS Group (Royal Bank of Scotland, NatWest Bank and Ulster Bank).

Note 5 - Includes the Council's banking provider (currently Barclays), if it currently falls into category below this colour band.

Note 6 - The higher maximum principal is to facilitate joint initiatives and activities relating to the devolution agenda.

2.11.4 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

2.11.5 Typically the minimum credit ratings criteria the Council uses will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but

may still be used. In this instance consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

2.11.6 All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn or notice given to withdraw immediately.

- In addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap Index against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in the downgrading of an institution or its removal from the Council's lending list.

2.11.7 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information to help support the decision making process.

UK banks – ring fencing

2.11.8 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future.

2.11.9 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

2.11.10 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

2.12 Country and Sector Limits

2.12.1 It is not proposed to restrict the Council's investment policy to only UK banks and building societies, however in addition to the credit rating criteria set out above consideration will be given to the sovereign rating of the country before any investment is made.

2.12.2 In February 2013 the UK lost its AAA rating and moved to an AA rating. The Council will continue to invest with UK Banks, providing the individual institutions still meet the relevant criteria.

2.12.3 The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list

of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy, therefore for illustrative purposes the appended list is extended to also show AA- i.e. the countries currently assessed to be in the rating below those that currently qualify. It is important to note that although able to, the Council has chosen not to invest overseas in recent years.

2.13 Investment Strategy

2.13.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, any cash identified that could be invested for longer periods will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

2.13.2 The Council currently has investments totalling £22m which span the financial year as shown in Table 13. These investments are current as at February 2019.

Table 13 - Investments maturing in 2019/20

Counterparty	Amount	Maturity Date	Rate
Surrey Heath Borough Council	£1,000,000	17/04/2019	0.90%
Goldman Sachs International Bank	£3,000,000	01/05/2019	0.95%
Thurrock Council	£2,500,000	26/09/2019	1.07%
Thurrock Council	£2,500,000	04/10/2019	1.07%
North Tyneside Council	£5,000,000	10/10/2019	1.07%
Isle of Wight	£5,000,000	07/08/2019	0.95%
West Dunbartonshire Council	£3,000,000	08/08/2019	0.98%
Total	**£22,000,000**		

2.13.3 The Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by Quarter 1 2022. Bank rate forecasts for financial year ends are:

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.50%
- 2021/22 2.00%

2.13.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

- 2021/22 1.75%
- 2022/23 2.00%
- 2023/24 2.25%
- 2024/25 2.50%

2.13.5 The overall balance of risks to economic growth in the UK is probably neutral.

2.13.6 The balance of risks to increases in Bank Rate and shorter term PWLB rates, are also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside and how quickly the Brexit negotiations move forward positively.

Investment Treasury Indicator and Limit

2.13.7 This indicator considers total principal funds invested for greater than 365 days. These limits have regard to the Council's liquidity requirements and to reduce the need for the early redemption of investments, and are based on the availability of funds after each year end.

Table 14 – Maximum principal sum invested greater than 365 days

Upper Limit for principal sums invested for longer than 365 days	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Principal sums invested for longer than 365 days	£50m	£50m	£50m	£50m
Current investments as at February 2019 in excess of 1 year	£15m	£15m	£15m	£15m

2.13.8 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short dated deposits, in order to benefit from the compounding of interest.

2.14 Investment Risk Benchmarking

2.14.1 These benchmarks provide simple guides to maximum risk, and may be breached from time to time, depending on movements in interest rates and counterparty criteria. These benchmarks provide officers with a baseline against which current and trend positions can be monitored. It may be necessary to amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report to Members.

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft facility of £0.100m
- Liquid short term deposits of at least £10m available with a week's notice

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID (London Interbank Bid Rate) rate multiplied by 5%
- Investments – internal returns above the 1 month LIBID rate multiplied by 5%
- Investments – internal returns above the 3 month LIBID rate multiplied by 5%
- Investments – internal returns above the 6 month LIBID rate multiplied by 5%
- Investments – internal returns above the 12 month LIBID rate multiplied by 5%

2.14.2 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report, which is in accordance with required practice and is presented to Cabinet and then Council for approval.

2.15 Other Treasury Management Issues

2.15.1 The Council is currently involved in legal action against Barclays Bank with regards to certain Lender Option Borrower Option (LOBO) transactions. This is based on the Bank's involvement in manipulation of the LIBOR benchmark rate and the subsequent impact on the Council's financial position. This matter is on-going.

Brexit

2.15.2 The Council is mindful of the Brexit timetable and will ensure that treasury activity is managed to minimise any risk to the Council as 29 March 2019 approaches.

3 Options/Alternatives

3.1 In order to comply with the CIPFA Code of Practice on Treasury Management, the Council has no option other than to consider and approve the contents of the report. Therefore no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of this report are approved by Council.

5 Consultation

5.1 There has been consultation with Link Asset Services, Treasury Management Advisors. The consideration of the Treasury Management Strategy for 2019/20 by the Overview and Scrutiny Performance and Value for Money Select Committee is a key strand in the consultation process. The Select Committee scrutinised the proposed Treasury Management Strategy at its meeting on 24 January 2019 and was content to commend the report to Cabinet. Cabinet also considered and approved the Strategy at its meeting of 11 February 2019 and was content to commend the report to Council. The Treasury Management Strategy will also be considered at the next meeting of the Audit Committee

6 Financial Implications

6.1 Financial Implications are detailed within the report.

7 Legal Services Comments

7.1 There are no legal implications.

8 Co-operative Agenda

8.1 The Treasury Management Strategy embraces the Council's co-operative agenda. The Council will develop its investment framework to ensure it complements the co-operative ethos of the Council.

9 Human Resources Comments

9.1 There are no Human Resource Implications.

10 Risk Assessments

10.1 There are considerable risks to the security of the Authority's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The Council has established good practice in relation to Treasury Management which has previously been acknowledged in the Internal and External Auditors' reports presented to the Audit Committee. An issue dependent upon market developments which may need to be considered in the future is refinancing some of the long term loans. This can be mitigated by effective monitoring of the market.

11 IT Implications

11.1 There are no IT Implications.

12 Property Implications

12.1 There are no Property Implications.

13 Procurement Implications

13.1 There are no Procurement Implications.

14 Environmental and Health & Safety Implications

14.1 There are no Environmental and Health & Safety Implications.

15 Equality, community cohesion and crime implications

15.1 There are no Equality, community cohesion and crime implications.

16 Equality Impact Assessment Completed?

16.1 No.

17 Key Decision

17.1 Yes.

18 Key Decision Reference

18.1 FCR -17 -18

19 Background Papers

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendices 1 - 8
Officer Name:	Lee Walsh / Talei Whitmore
Contact No:	0161 770 6608/ 4924

20 Appendices

Appendix 1	Minimum Revenue Provision (MRP) Policy Statement
Appendix 2	Prudential and Treasury Indicators 2019/20 – 2021/22
Appendix 3	Link Asset Services - Treasury Advisor's Interest Rate Forecast 2019-2022
Appendix 4	Economic Background
Appendix 5	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Appendix 6	Approved Countries for Investments
Appendix 7	Treasury Management Scheme of Delegation
Appendix 8	Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

Appendix 1 – Minimum Revenue Provision (MRP) Policy Statement

1.1 General Principles and Practices

1.1.1 Local Authorities are required to set aside 'prudent' provision for debt repayment where they have used borrowing or credit arrangements to finance capital expenditure. Ministry for Housing, Communities and Local Government (MHCLG) regulations require the full MRP Statement to be decided upon at least annually and reported to the Council Meeting. The Council has to ensure that the chosen options are prudent.

1.2 Link to Asset Life/Economic Benefit

1.2.1 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP will normally be determined by reference to asset life, economic benefit or MHCLG Guidance.

1.2.2 To the extent that expenditure cannot be linked to the creation/enhancement of an asset and is of a type that is subject to estimated life periods that are referred to in the MHCLG guidance (paragraph 24), these periods will generally be adopted by the Council.

1.2.3 Where certain types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

1.2.4 Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

1.3 Methods for Calculating MRP

1.3.1 Any of the methods for calculating MRP that are set out below may be used. MRP will commence in the financial year after the completion of assets rather than when expenditure is incurred. All methods, with the exception of the approach taken to Previously Supported General Fund Borrowing are based on Asset Life/Economic Benefit. These methods include but are not limited to:

The Annuity Method

1.3.2 This calculation seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to 'principal', the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to either prevailing or average PWLB rates.

Equal Instalments of Principal

1.3.3 MRP is an equal annual charge calculated by dividing the original amount of borrowing by the useful life of the asset.

Previously Supported General Fund Borrowing

1.3.4 General Fund Borrowing that was previously supported through the Revenue Support Grant (RSG) system will be provided for in equal annual instalments over a 50 year period commencing 1 April 2016. As at 1 April 2016, the value of this borrowing equalled £134,376,866 and results in an equal annual minimum revenue provision of £2,742,385; the final instalment of which will be provided for by no later than 31 March 2066. In the event of:

- transfers of Capital Financing Requirement between the General Fund element and Housing element; and
- additional voluntary revenue provision being made.

The annual MRP charge will be adjusted to ensure that full provision will continue to be made by no later than 31 March 2066.

Bespoke Repayment Profiles

1.3.5 With regard to credit arrangements that are implicit in Finance Lease or PFI arrangements, any 'debt' repayment element (notional or otherwise) included in charges associated with these arrangements will be classified as MRP.

1.4 Voluntary Revenue Provision

1.4.1 The Council has the option of making additional Voluntary Revenue Provision (VRP) in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. Where the Council has made additional VRP's for debt repayment in previous years, in year MRP charges may be adjusted to reflect this provided it does not result in a negative MRP charge. To the extent charges are adjusted, current and future year's charges will be recalculated to ensure the Council continues to make prudent provision for debt repayment in relation to historic capital expenditure. The Council may in some circumstances apply VRP to relatively short-life assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs.

1.5 Local Exceptions to the Guidance

1.5.1 The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the MHCLG guidance are not appropriate to local circumstances. Examples include:

Assets under Construction

1.5.2 No MRP charge will be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use.

Local Authority Mortgage Scheme (LAMS)

1.5.3 The Council currently operates a Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a five year deposit from the Local Authority to match the five year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending and is treated as capital expenditure and a loan to a third party. The CFR will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the Local Authority, the returned funds are classed as a capital receipt, which will be applied to reduce the CFR. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside MRP to repay the debt liability in the interim period.

Loans to third parties

1.5.4 The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties, and concluded that provision is not necessary. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor and the associated obligation to make repayments.

1.6 Borrowing in Lieu of Capital Receipts

1.6.1 The Council has concluded that MRP provision is not necessary for capital expenditure incurred in lieu of capital receipts. Any such schemes will be classified by the Capital Investment Programme Board (CIPB) as ‘Borrowing in Lieu of Capital Receipts’. CIPB will also determine which capital receipts will be allocated to the scheme and as the receipts are achieved they will be applied to repay the debt.

The Application of Capital Receipts in Lieu of MRP

1.6.2 Where the Council has received uncommitted and unapplied Capital Receipts, it retains the option to set aside those Capital Receipts as part of its arrangements for making ‘prudent’ provision for debt repayment rather than using them for capital financing purposes.

1.6.3 As Capital Receipts may form part of the Councils arrangements for making ‘prudent’ provision, setting aside Capital Receipts in this manner can be carried out in lieu of MRP whereby the MRP charge will be reduced by an amount equal to that set aside from Capital Receipts.

1.7 HRA Capital Financing Requirement (CFR)

1.7.1 MRP will equal the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations (SI 2003/3146) as if they had not been revoked. This approach is consistent with paragraph 7 of the MHCLG Guidance on MRP.

1.7.2 The basic MRP charge relating to the HRA CFR is therefore nil. However, the Council may make ‘Voluntary Revenue Provision’ provided such an approach is prudent and appropriate in the context of financing the HRA capital programme and is consistent with the delivery of the HRA Business Plan.

Appendix 2 Prudential and Treasury Indicators 2019/2020 – 2021/22

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital expenditure

Capital Expenditure	2017/18 Actual £000	2018/19 Estimate '000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Corporate and Commercial Services *	1,463	14,174	9,212	1,583	1,719
Health and Wellbeing	1,493	0	0	0	0
Health & Adult Social Care Community Services	0	1,894	2,682	1,400	400
Economy, Skills and Neighbourhoods	22,058	0	0	0	0
People & Place	0	31,265	54,403	63,081	70,544
Reform	0	216	100	100	700
Funds yet to be allocated	0	306	5,000	3,000	1,500
General Fund Services	**25,014**	**47,855**	**71,397**	**69,164**	**74,863**
Housing Revenue Account (HRA)	789	1,097	4,235	1,632	922
HRA	**789**	**1,097**	**4,235**	**1,632**	**922**
Commercial Activities / Non-Financial Investments **	0	0	8,700	6,910	5,000
Commercial Activities / Non-Financial Investments	**0**	**0**	**8,700**	**6,910**	**5,000**
Total	**25,803**	**48,952**	**84,332**	**77,706**	**80,785**

* Excludes commercial activities which are which are included in the Corporate and Commercial Services capital programme

** Relate to areas such as capital expenditure on investment properties, loans to third parties etc.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
General Fund excluding DSG*	11.52%	12.68%	12.88%	12.75%	13.41%

*Dedicated Schools Grant

The estimates of financing costs include current commitments and the proposals in the budget report.

Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Council is asked to approve the following treasury indicators and limits:

Maturity Structure of fixed interest rate debt 2019/20	Lower Limit	Upper Limit
Under 12 months	0.00%	40.00%
12 months and within 24 months	0.00%	40.00%
24 months and within 5 years	0.00%	40.00%
5 years and within 10 years	0.00%	40.00%
10 years to 20 years	0.00%	50.00%
20 years to 30 years	0.00%	50.00%
30 years to 40 years	0.00%	50.00%
40 years to 50 years	0.00%	50.00%
50 years to 60 years	0.00%	50.00%
60 years and above	0.00%	50.00%

Control of interest rate exposure

Members are advised that indicators for interest rate exposure are no longer a requirement under the new Treasury Management Code however, as interest rate exposure risk is an important issue, officers will monitor the balance between fixed and variable interest rates for borrowing and investments. This will aim to ensure the Council is not exposed to adverse fluctuations in fixed or variable rate interest rate movements.

This is likely to reflect higher fixed interest rate borrowing if the borrowing need is high or fixed interest rates are likely to increase, or a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investments are expected to rise.

The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions.

Appendix 3 – Link Asset Services Interest Rate Forecast 2019 – 2022

PWLB rates and forecast shown below take into account the 20 basis point certainty rate reduction effective as of the 1 November 2018 for 2018/19 and 2019/20.

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.70%	0.80%	1.00%	1.10%	1.20%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.80%	0.90%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.00%	1.10%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.00%
25yr PWLB Rate	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Bank Rate													
Link Asset Services	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	1.75%	1.75%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	1.80%	1.90%	2.00%	2.20%	2.50%	2.50%	2.60%	2.60%	0.00%	0.00%	0.00%	0.00%	0.00%
10yr PWLB Rate													
Link Asset Services	2.20%	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.00%
Capital Economics	2.20%	2.30%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%
Capital Economics	2.70%	2.80%	3.00%	3.10%	3.30%	3.20%	3.20%	3.10%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.60%	2.70%	2.80%	2.90%	3.20%	3.20%	3.20%	3.10%	-	-	-	-	-

Appendix 4: Economic Background

Set out below is a more detailed analysis of the Economic background used to support the preparation of the 2019/20 Treasury Management Strategy Statement.

Global Outlook

World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the European Central Bank (ECB) is unlikely to start raising rates until late in 2019.

Key Risks - central bank monetary policy measures

Looking back on ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of Central Government debt and smaller sums of other debt.

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), also reducing central banks' holdings of Government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a significant risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018 and into early 2019. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. The potential for central banks to get this timing and strength of action wrong are now key risks. It is particularly notable that, at its 30 January 2019 meeting, the Fed dropped its previous words around expecting further increases in interest rates; it merely said it would be "patient".

The world economy also needs to adjust to a sharp change in liquidity creation over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

United Kingdom

2018 was a year which started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% in quarter 2 followed by quarter 3 being exceptionally strong at +0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit uncertainty and came in at only +0.2%. Growth is likely to continue being weak until the Brexit uncertainty clears.

The MPC has stated that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they have given a figure for this of around 2.5% in ten years' time but have declined to give a medium term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, the MPC could also raise Bank Rate in the same scenario if there was a boost to inflation from increases in import prices, devaluation of sterling, and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could provide fiscal stimulus to boost growth.

Inflation

The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018 and 1.8% in January 2019. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate.

The labour market figures in November were particularly strong with an emphatic increase in total employment of 141,000 over the previous three months, unemployment at 4.0%, a 43 year low on the Independent Labour Organisation measure, and job vacancies hitting an all-time high, indicating that employers are having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation continued at its high point of 3.3%, (3 month average regular pay, excluding bonuses). This means that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the political arena, the Brexit deal put forward by the Conservative minority Government was defeated on 15 January. Prime Minister May is currently, seeking some form of modification or clarification from the EU of the Irish border backstop issue. However, the position is that the Government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

United States of America

President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and an unemployment rate of 4.0%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in December.

However, CPI inflation overall fell to 1.9% in December and looks to be on a falling trend to continue below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, which was the fifth increase in 2018 and the ninth in this cycle. However, they dropped any specific reference to expecting further increases at their January 30 2019 meeting. The last increase in December compounded investor fears that the Fed could overdo the speed and level of increases in rates in 2019 and so cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow. Since the more reassuring words of the Fed in January, equity values have recovered somewhat.

The tariff war between the US and China generated a lot of heat during 2018; it could significantly damage world growth if an agreement is not reached during the current three month truce declared by President Trump to hold off from further tariff increases.

Eurozone

Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. Current forward indicators for economic growth and inflation have now been on a downward trend for a significant period which will make if difficult for the European Central Bank (ECB) to make any start on increasing rates until 2020 at the earliest. Indeed, the issue now is rather whether the ECB will have to resort to new measures to boost liquidity in the economy in order to support growth. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. In its January 2019 meeting, it made a point of underlining that it will be fully reinvesting all maturing debt for an extended period of time past the date at which it starts raising the key ECB interest rates.

China

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan

Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries

Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

Interest Rate Forecasts

The interest rate forecasts provided by Link Asset Services in paragraph 2.5.1 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in 2020 which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the Government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of Government debt, low rate of economic growth and vulnerable banking system, and due to the election in March 2018 of a Government which has made a lot of anti-austerity comments. The EU rejected the initial proposed Italian budget and demanded cuts in Government spending which the Italian Government initially refused. However, an amendment was subsequently agreed but only by delaying the planned increases in expenditure to a later year. This has therefore only been pushed into the future. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian

debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian Government and consequently, Italian bond yields have risen – at a time when the Government faces having to refinance large amounts of debt maturing in 2019.

- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian Government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority Government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the support of the SPD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone Governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority Governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. Elections to the EU parliament are due in May/June 2019.
- The increases in interest rates in the US during 2018, combined with a potential trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. Some **emerging market countries** which have borrowed heavily in dollar denominated debt, could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.
- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which

then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Appendix 5: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified Investments: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

Non-specified Investments: These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments

	Minimum credit criteria / colour band	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government Debt Management Account Deposit Facility	N/A	100%	6 months
UK Government gilts	UK sovereign rating	£20m	12 months
UK Government Treasury bills	UK sovereign rating	£20m	12 months
Bonds issued by multilateral development banks	AAA	£10m	6 months
Money Market Funds	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.25	AAA	£20m	Liquid
Enhanced Cash Funds with a credit score of 1.5	AAA	£20m	Liquid
Public Bodies	N/A	£20m	12 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£20m £15m £10m £10m Not for use	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£10m	12 months
REPO's (Collateralised deposit)	100% Collateral	£5m	12 months
GMCA	Internal Due Diligence	£30m	12 months
GM Public Bodies	Internal Due Diligence	£30m	5 years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

Non-specified Investments: A maximum of 50% will be held in aggregate in non-specified investments.

Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	£ limit per institution	Max. maturity period
Term deposits – local authorities and other public institutions	--	In-house	£10m	5 years
Term deposits – banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Yellow Purple	In-house	£10m £10m	5 years 2 years
Certificates of deposit issued by banks and building societies	Short-term F1 Long-term AA	Fund Managers	£5m	2 years
Collateralised deposit	UK sovereign rating	In-house and Fund Managers	£5m	2 years
UK Government Gilts	UK sovereign rating	In-house and Fund Managers	£10m	5 years
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	£10m	3 years
Sovereign bond issues (other than the UK Government)	AAA	In-house and Fund Managers	£5m	2 years
Corporate bonds	Short-termF1 Long-term AA	In-house and Fund Managers	£5m	5 years
Green Energy Bonds	Internal Due Diligence	In-house and Fund Managers	£10m	10 years
Property Funds	Internal Due Diligence	In-house	£30m	10 years
Floating Rate Notes	Long Term A	In-house	£5m	5 years
REPO's (Collateralised deposit)	100% Collateral	In-house	£5m	5 years
GMCA	Internal Due Diligence	In-house	£30m	5 years
Covered Bonds	Long term A	In-house	£5m	5 years
Local Capital Finance Company (Municipal Bonds Agency)	Internal Due Diligence	In-house	£1m	10 years
Local Authority Fixed Income Fund	Internal Due Diligence	In-house	£5m	10 years
Unrated Bonds, backed by securitised Assets	Internal Due Diligence	In-house and fund managers	£5m	5 years
Asset Backed Pooled Investment Funds	Internal Due Diligence	In-house and fund managers	£5m	5 years
Fixed term deposits with variable rate and variable maturities	Internal Due Diligence	In-house and External Advice	£20m	50 years

Appendix 6: Approved Countries for Investments (as at Febuary 2019)

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- France
- U.K.

AA-

- Belgium

Appendix 7: Treasury Management Scheme of Delegation

The scheme of delegation is as follows:

Full Council is the responsible body for:

- receiving and reviewing reports on Treasury Management policies, practices and activities;
- the approval of the annual strategy, mid-year review and outturn report;
- approval of/amendments to the organisation's Treasury Management Policy Statement and Treasury Management Practices;
- budget consideration and approval;
- approval of the division of responsibilities; and
- receiving and reviewing regular monitoring reports and acting on recommendations.

Cabinet is the responsible body for:

- considering the Treasury Management Policy and Procedures and making recommendations to the responsible body; and
- considering Treasury Management reports and commending to Council.

Audit Committee is responsible for scrutiny:

- reviewing the Treasury Management Policy and Procedures and making recommendations to the responsible body; and
- reviewing Treasury Management reports and making recommendations to the responsible body.

Cabinet Member for Finance and and Corporate Resources is responsible for:

- approving the selection of external service providers and agreeing terms of appointment

Note : The Overview and Scrutiny Performance and Value for Money Select Committee reviews and scrutinises the Annual Treasury Management Strategy report along with the suite of other budget reports (including the Capital Strategy).

Appendix 8: The Treasury Management Role of the Statutory Chief Finance Officer (Director of Finance)

The Statutory Chief Financial Officer will discharge the Treasury Management role by:

- recommending Treasury Management Policy/Practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular Treasury Management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing Treasury Management information reports;
- reviewing the performance of the Treasury Management function;
- ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- ensuring the adequacy of internal audit processes, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Authority;
- ensures that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investment which exposes the Authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- the provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that Members are adequately informed and understand the risk exposures taken on by an Authority;
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above; and
- the creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken; and

- Ensuring appropriate training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Report to Audit Committee

Internal Audit Charter 2019/20

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Corporate Resources

Officer Contact: Mark Stenson, Head of Corporate Governance

Report Author: Mark Stenson, Head of Corporate Governance

Ext. 4783

7 March 2019

Reason for Decision

To advise Audit Committee Members of the proposed Internal Audit Charter for 2019/20.

Executive Summary

The work of Internal Audit at Oldham Council has been governed by the UK Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The Standards comprise a revised definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all Internal Auditors working in the UK public sector.

The 2018/19 Internal Audit Charter was approved by the Audit Committee on 19 March 2018 and Appendix 1 to this report includes the updated Charter for 2019/20.

Recommendations

Members of the Audit Committee are requested to approve the Internal Audit Charter, effective from 1 April 2019.

Audit Committee **7 March 2019**

Internal Audit Charter 2019/20

1 **Background**

1.1 The Accounts and Audit (England) Regulations 2015 require every Local Authority to undertake an effective Internal Audit to evaluate the effectiveness of the Authority's risk management, control and governance processes. This should be carried out with regard to public sector Internal Audit standards and guidance.

1.2 Local Authority Internal Audit functions should comply with the 2013 Public Sector Internal Audit Standards (Revised 2017). These Standards (PSIAS) comprise a revised definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all Internal Auditors working in the UK public sector; the objectives of the PSIAS are to:

- define the nature of Internal Auditing within the UK public sector;
- set basic principles for carrying out Internal Audit in the UK public sector;
- establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.

1.3 The Standards require an independent external assessment of the Council's Internal Audit service every five years. At its meeting on 8 September 2016, Members of the Audit Committee approved the selection of the Chartered Institute of Public Finance and Accountancy (CIPFA) to conduct this external assessment and this was conducted in September 2017. The conclusions of the independent external assessment were reported to the Audit Committee meeting of 11 January 2018.

1.4 PSIAS requires the "Internal Audit Charter" defines the mission, purpose, authority and responsibility of the Internal Audit function and its position within the organisation. The External Assessment report by CIPFA contained four recommendations, which were fully agreed and implemented by the Head of Corporate Governance in 2018/19.

1.5 The following changes were made to the 2018/19 Audit Charter and these are retained in the attached 2019/20 Audit Charter, as follows:

- The "Mission of Internal Audit" replaced the role and purpose, which was clarified in the Charter.
- The Audit Charter incorporated a statement to confirm whether the Service has sufficient resources to deliver an effective Internal Audit service to the Council.

1.6 The Internal Audit Charter for 2018/19 was approved by the Audit Committee on 19 March 2018. As part of his annual review, the Head of Corporate Governance, has reviewed the Audit Charter to ensure that the recommendations from the CIPFA external assessment have been implemented. The proposed 2019/20 Internal Audit Charter is attached as **Appendix 1.**

2. **Options/Alternatives**

2.1 N/A

3. **Preferred Option**

3.1 N/A

4. **Consultation**

4.1 N/A

5 **Financial Implications**

5.1 N/A

6. **Legal Services Comments**

6.1 N/A

7 **Cooperative Agenda**

7.1 N/A

8 **Human Resources Comments**

8.1 N/A

9. **Risk Assessments**

9.1 The risk assessment is based on the work competed.

10 **IT Implications**

10.1 N/A

11 **Property Implications**

11.1 N/A

12 **Procurement Implications**

12.1 N/A

13 **Environmental and Health & Safety Implications**

13.1 N/A

14 **Equity, Community Cohesion and Crime Implications**

14.1. None.

15 **Equality Impact Assessment Completed?**

15.1 No.

16 **Key Decision**

16.1 N/A

17 **Key Decision Reference**

17.1 N/A

18 **Background Papers**

18.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act.

- File Ref: Background papers are provided at Appendix 1
- Officer Name: Jane Whyatt
- Contact No: 4773

19 **Appendices**

19.1 **Appendix 1**: Internal Audit Charter 2019/20.

APPENDIX 1

Oldham Council
Internal Audit Function

Internal Audit Charter 2019/20

Internal Audit and Counter Fraud
Level 14
Civic Centre
West Street
Oldham
OL1 1 UH

Internal Audit Charter 2019/20

Internal Audit Charter 2019/20

1 April 2019

1 Accounts and Audit (England) Regulations 2015

1.1 The Accounts and Audit (England) Regulations 2015 require every Local Authority to undertake an effective Internal Audit to evaluate the effectiveness of the Authority's risk management, control and governance processes. This should be carried out with regard to public sector Internal Audit standards and guidance. Local Authority Internal Audit functions should comply with the Public Sector Internal Audit Standards (PSIAS).

1.2 PSIAS (also referred to, in this document, as "the Standards") define Internal Auditing as "….*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

1.3 The Standards state that the Internal Audit plan should include and/or be aligned to the strategic statement of how the service will be delivered in accordance with the Internal Audit Charter, which is illustrated by the following process flow diagram:

1.4 The purpose of the Internal Audit Charter is to:

- define the mission, purpose, authority and responsibility of Internal Audit;
- establish the position of Internal Audit within the Council, its reporting lines and resources;
- authorise access to records, personnel and physical property relevance to the performance of the audit work; and
- define the scope of Internal Audit activities.

2 Definition of Internal Audit

2.1 Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2.2 The PSIAS require that the Internal Audit Charter defines the terms 'board' and 'senior management' in relation to the work of Internal Audit. For the purposes of Internal Audit work, at Oldham Council:

- the 'Board' refers to the Council's Audit Committee which has delegated responsibility for overseeing the work of Internal Audit; "Senior Management" is defined as the Chief Executive and members of the Council's Executive Management Team; and
- the Head of Corporate Governance reports to the Director of Finance, to support their requirements under Section 151 of the Local Government Act 1972.

3. Mission of Internal Audit

3.1 The mission of Internal Audit is to provide an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. The primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls across the entire council.

4. Professionalism

4.1 The Internal Audit activity will govern itself by adherence to the PSIAS. This guidance constitutes principles of fundamental requirements for the professional practice of Internal Auditing and for the evaluating the effectiveness of the Internal Audit activity's performance.

4.2 The service, and individual staff, will be governed by the Code of Ethics of the relevant professional bodies of which they are a member, and all codes and policies operated by Oldham Council.

5. Authority

5.1 The Internal Audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Oldham Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit activity in fulfilling its roles and responsibilities. The Internal Audit activity will also have free and unrestricted access to senior officers, Members and the Audit Committee.

5.2 Managers must also ensure that Internal Audit is provided with all the information and explanations that it requires in the course of its work.

6. Organisation

6.1 The Internal Audit Section is part of the Corporate and Commercial Services Directorate, within the Finance Department. The Head of Corporate Governance reports directly to the Director of Finance, and also reports functionally to the Audit Committee.

7. Independence and Objectivity

7.1 The Internal Audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

7.2 Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an Internal Auditor's judgment.

7.3 Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

7.4 The Head of Corporate Governance will confirm the organisational independence of the Internal Audit activity to the Audit Committee, at least annually.

8. Responsibility

8.1 The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organisation's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
- Reporting periodically on the purpose of Internal Audit activity, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.
- Evaluating specific operations at the request of the Audit Committee or management, as appropriate.
- Involvement in the investigation of any allegations of fraud in accordance with the Council's Fraud Response Plan.

9. Internal Audit Resources

9.1 At Oldham Council, the Head of Internal Audit (known as the Chief Audit Executive) is the Head of Corporate Governance, who is responsible for ensuring that Internal Audit resources are appropriately organised, trained and deployed to deliver an effective Internal Audit service to the Council. In particular, his role is to ensure that Internal Audit resources:

- are appropriately qualified and experienced, and that they possess the appropriate skills, knowledge and competences to ensure due professional care;
- have sufficient knowledge of systems and ensure they have access to appropriate computer assisted audit techniques to perform their work, and data matching and analysis techniques; and
- are recruited, supported and trained using the Council's People Services standards and processes.

9.2 The Chief Audit Executive ensures that the Annual Audit Plan sets out the resources that are available, and how they will be deployed to ensure that the Plan is delivered. Specialist resources may be commissioned from other providers.

9.3 The Chief Audit Executive will report to the Council's Audit Committee, if he believes there are insufficient resources available to deliver the Plan and if the level of agreed resources will impact adversely on the provision of the annual Internal Audit opinion.

9.4 The Chief Audit Executive concludes that there is sufficient Internal Audit resources to deliver an effective Internal Audit service to the Council in 2019/20.

10. Internal Audit Plan

10.1 At least annually, the Chief Audit Executive will submit to senior management and the Audit Committee an Internal Audit plan for review and approval. The Internal Audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

10.2 The Internal Audit Plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee Any significant deviation from the approved Internal Audit plan will be communicated to senior management and the Audit Committee through periodic activity reports.

10.3 The Internal Audit Plan includes a strategic statement on Internal Audit, setting out how the overall service and how specific types of audits will be delivered. The Audit Charter sets out whether the Service has sufficient resources to deliver an effective Internal Audit service to the Council (this is set out in section 9.4 above).

11. Reporting and Monitoring

11.1 A written report will be prepared and issued by the Head of Corporate Governance or designee following the conclusion of each Internal Audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated in summary to the Audit Committee.

11.2 The Internal Audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations.

11.3 The Internal Audit team will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

12. Periodic Assessment

12.1 Each year, the Head of Corporate Governance will report to senior management and the Audit Committee on the Internal Audit team's mission, purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Audit Committee.

12.2 In addition, the Head of Corporate Governance will communicate to senior management and the Audit Committee on the Internal Audit activity's quality assurance and improvement programme, including results of on-going internal assessments and external assessments conducted at least every five years.

12.3 As reported earlier, in line with PSIAS, an external assessment of the Internal Audit service was conducted in 2017/18. Following a procurement exercise and approval by the Council's Audit Committee, this assessment was carried out by the Chartered Institute of Finance and Accountancy (CIPFA).

12.4 The outcome of this external assessment was reported to the Audit Committee at its meeting of 11 January 2018.

13. Internal Audit Charter Review

13.1 The Internal Audit Charter will be reviewed by the Head of Corporate Governance annually, to ensure that it supports and links to the Council's corporate priorities. The Charter should be reported to Audit Committee at least every two years. The Charter was last reported to, and agreed by, the Audit Committee on 19 March 2018 and this reflected the agreed changes made to reflect the PSIAS External Assessment by CIPFA in September 2017.

This page is intentionally left blank

Report to Audit Committee

Internal Audit and Counter Fraud Plan 2019/20

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Resources

Officer Contact: Anne Ryans, Director of Finance

Report Author: Mark Stenson, Head of Corporate Governance

Ext. 4783

7 March 2019

Reason for Decision

To advise and consult with Members on the proposed Internal Audit and Counter Fraud Plan for the financial year 2019/20 and give Members of this Committee the opportunity to highlight any potential risks they feel would benefit from an Internal Audit and Counter Fraud review.

Executive Summary

The Annual Audit and Counter Fraud Plan is prepared on an annual basis and ultimately agreed with the Director of Finance as the Section 151 Officer to the Council. The Director of Finance needs to be assured the audit coverage is sufficient to discharge the S151 officer's statutory role. Consultation with the Audit Committee at this stage gives Members the opportunity to review and comment on the proposed Annual Plan.

Recommendations

That Members of the Audit Committee comment upon and agree the Internal Audit and Counter Fraud Planning process and the Audit and Counter Fraud Plan for 2019/20.

Audit Committee **7 March 2019**

Internal Audit and Counter Fraud Plan 2019/20

1 Background

1.1 This is the report by the Head of Corporate Governance to this Committee to advise Members of the Internal Audit and Counter Fraud planning process for the financial year 2019/20. It also gives Members of this Committee the opportunity to highlight any potential areas of work they feel would be appropriate for future Internal Audit and Counter Fraud coverage.

2 Planning Process

2.1 The first stage of the Annual Internal and Counter Fraud Plan is derived from the strategic three year audit plan prepared via the use of the Council's agreed Audit Needs Assessment. This is then utilised to produce the initial draft of the Annual Plan.

2.2 The next stage of developing the plan involves consultation with and review of the following:

- Director of Finance and Senior Finance Staff.
- Key Directorate Staff and Management Team, including key staff from "Oldham Cares" for integrated health.
- Partnership and project governance undertaken with key Members of this Committee.
- Key Staff from Council owned companies; MioCare Group CIC and the Unity Partnership Ltd.
- Issues reported in key documents, including:
  - Corporate Risk Register; and
  - Annual Governance Statement.
- Council's Fraud and Loss Risk Assessment.
- External Audit and other Internal Audit providers; e.g. Salford Council IT Audit and Mersey Internal Audit Agency for integrated health audits.
- Council's Audit Committee.
- Head of Audit for the Greater Manchester Combined Authority.

2.3 **Appendix 1** attached to this report sets out the key areas of coverage it is proposed to review including developments on key projects and devolution. The Head of Corporate Governance will expand upon key issues at the meeting.

3 Conclusions

3.1 It is felt to be appropriate at this stage in the planning cycle to consult the Council's Audit Committee, in their governance role, to gain their views on the proposed areas for coverage.

4 Options/Alternatives

4.1 N/A

5 Preferred Option

5.1 The preferred option is that the Audit Committee notes the proposed areas for review and provides feedback on any areas they view as a priority for review.

6 **Consultation**

6.1 This report is consulting on the views of the Audit Committee in relation to the 2019/20 Audit Coverage.

7 **Financial Implications**

7.1 N/A

8 **Legal Services Comments**

8.1 N/A.

9 **Cooperative Agenda**

9.1 N/A

10 **Human Resources Comments**

10.1 N/A

11 **Risk Assessments**

11.1 N/A

12 **IT Implications**

12.1 N/A

13 **Property Implications**

13.1 N/A

14 **Procurement Implications**

14.1 N/A

15 **Environmental and Health & Safety Implications**

15.1 N/A

16 **Equality, community cohesion and crime implications**

16.1 N/A

17 **Equality Impact Assessment Completed?**

17.1 N/A

18 **Key Decision**

18.1 N/A

19 **Forward Plan Reference**

19.1 N/A

20 **Background Papers**

20.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are included as Appendices
Officer Name: Mark Stenson
Contact No: Extension 4783

21 **Appendices**

21.1 **Appendix 1**: 2019/20 Internal Audit and Counter Fraud Plan

Appendix 1

2019/20 Internal Audit & Counter Fraud Plan

Mark Stenson, Head of Corporate Governance

Audit Committee

7 March 2019

Oldham Council

2019/20 Internal Audit & Counter Fraud Plan Agenda

- 2019/20 Audit Planning Approach
- Fundamental Financial Systems:
  - 14 systems and continuous review of risks
- Corporate and Strategic Audits:
  - Corporate & Strategic Projects, Implementations & Assurance
  - IT Audit Plan
- Directorate Reviews:
  - Corporate and Commercial Services Directorate
  - Health Devolution & Adults Social Care (“Oldham Cares”)
  - People and Place Directorate
  - Children’s Services
  - Strategic Reform
- Group Companies, Management, Responsive and Investigations

2019/20 Audit Planning Approach

- Understand corporate objectives and risks
- Define the audit universe
- Assess the inherent risk
- Assess the strength of the control environment
- Calculate the audit requirement
- Determine the audit plan
- Consider additional audit requirements identified from the risk assessment process

Fundamental Financial Systems (1)

2019/20 Year End Assurance

- Financial Systems Audits (14):
  1. Accounts Payable
  2. Accounts Receivable
  3. Bank Reconciliations
  4. Cash Income, supported by Control and Risk Self Assessment
  5. Council Tax Support
  6. Council Tax including Discounts and Exemptions
  7. Fixed Assets
  8. Housing Benefits and Risk Based Verification

Fundamental Financial Systems (2)

2019/20 Year End Assurance

9. Housing Rents – risk to be determined
10. NDR/Business Rates
11. Payroll and Pensions – Directorates and Schools
12. Personal Budgets
13. Residential Homecare Payments
14. Treasury Management

- *Plus:*
  - *Continuous review of risk; e.g. Children's Financial Systems*
  - *Supporting the Council's External Auditor (Mazars)*
  - *Ad hoc support and reviews*

Corporate & Strategic Projects, Implementations & Assurance

- Payroll Improvement Programme
- Agresso Finance System Support Model
- Unity Partnership Ltd:
  - Agresso Financial System Implementation
- Mosaic:
  - Adults Payments/Income on-going support
  - Pre Implementation support for Children's migration
- Joint Systems with Combined Authority and Health:
  - Integrated Care Organisation – post implementation support
- Risk Review:
  - as per 2017/10 PSIAS Assessment

Corporate Projects
IT Audit Plan

- IT Audit Plan in collaboration with External Supplier:
  - 2019/20 IT Audit Plan
  - 2018/19 audit follow-up
- Server Refresh and other IT Projects
- Information Management:
  - General Data Protection Rules

Corporate and Commercial Services Operational Audits

In addition to FFS and Corporate Audits, the following are Directorate based reviews:

- Elections Support and Assurance:
  - Postal votes emerging risks, sample review of postal votes and review of “live” verification process
  - Election Day support
- Governance Training
- Unity Partnership Ltd:
  - Internal Audit Plan
  - Review of Shared Service Client

Corporate Projects
Devolution - Health

- Integration of Health and Regional Framework:
  - Joint working emerging risks; e.g. data security
  - Developing prior year work on MioCare CIC
- European Grants:
  - Regional Assurance

Adults Social Care & “Oldham Cares” Operational Audits

In addition to FFS and systems (Mosaic) assurance, the following are Directorate / Service based reviews:

- Integration with Health, Business Service Redesign:
  - Changes to structure and financial processes
  - Governance Review
- Supported Living Properties
- Mental Health Financial Processes and Governance
- Safeguarding Adults
- Brokerage Processes

People and Place Directorate
Economy

- Regeneration Projects:
  - Developing the Vision for the Town Centre Master Plan
  - Heritage Centre/Theatre
- Property Disposal:
  - Transaction assurance reviews
  - Informal tender process, training and support
- School Capital Programme:
  - Greenfield Primary School
  - Saddleworth Replacement School

People and Place Directorate Environment

- Parks Review
- Highways Maintenance

Children's Services
Education Skills & Early Years

- Schools' Audit Plan:
  - Audit follows up
  - Control and Risk Self Assessment
- Education Governance Training:
  - Governors, Head Teachers and Business Managers
- New School Places
- Special Education Needs
- Early Years

Children's Services Directorate Operational Audits

- Children's Safeguarding Review:
  - Audit Needs Assessment
- Financial Systems Review:
  - 2018 Cash Systems Audit follow up review
  - Core financial controls review and risk assessment

Strategic Reform
Operational Audits

- Environmental Management System:
  - ISO 40001
  - Supporting the development of local site review processes
- Carbon Reduction Commitment:
  - 2018/19 Review of Final Return
- Public Health
- Devolved Budgets to Members

Group Companies, Management, Responsive & Investigations

- Oldham Council Group Companies:
  - Delivering Approved Internal Audit Plans for MioCare CIC and Unity Partnership Ltd
- Audit & Counter Fraud Investigations
- North West Chief Audit Executive Group:
  - Regional Counter Fraud Sub Group Lead
  - Regional liaison and collaboration
- Implementation of Audit Management System:
- Management Planning and Quality Assurance:
  - Quarterly Review, Reporting and Committee Reporting
- Contingency for Unplanned Work
- 2020/21 Audit and Counter Fraud Plan Preparation
- Developing Training Proposition(s)
- Personal Budgets Audits (Adults/Children's)

Report to Audit Committee

2018/19 Proposed Accounting Policies and Critical Judgements

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Resources

Officer Contact: Anne Ryans, Director of Finance

Report Author: Lee Walsh, Finance Manager (Capital and Treasury)
Ext. 6608

7 March 2019

Reason for Decision

In line with best practice principles, approval is sought for the significant accounting policies and the critical judgements to be adopted in the preparation of the Council's 2018/19 Statement of Accounts.

Executive Summary

The report sets out the Council's proposed accounting policies and critical judgements to be adopted in completing the 2018/19 Statement of Accounts and updates Members on the main differences from 2017/18.

Recommendations

It is recommended that the Audit Committee:

1) approves the Council's proposed accounting policies to be adopted in completing the 2018/19 Statement of Accounts.
2) notes the critical judgements made by management when producing the Statement of Accounts.

1. Introduction

1.1 This report presents the significant accounting policies that will be used in the preparation of the 2018/19 Statement of Accounts and summarises the changes from 2017/18 that have been introduced as a result of amendments to the Code of Practice on Local Authority Accounting 2018/19 (the Code) or as part of the Council's annual review process. The report also explains the requirement to disclose the critical judgements made by management when producing the Statement of Accounts.

2. Accounting Policies

2.1 The Council's accounting policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies have to be disclosed as a note to the annual accounts, and a copy of the policies can be found at Appendix 1. The major change for 2018/19 relates to International Financial Reporting Standard (IFRS) 9 – Financial Instruments, with a smaller change relating to IFRS 15 – Revenue from Contracts with Customers. Both changes are set out below.

IFRS 9 - Financial Instruments

2.2 There have been significant changes to the Code for 2018/19 following the adoption of IFRS 9 - Financial Instruments from 1 April 2018. The Code specifies how the Council should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items in line with IFRS 9. The full accounting policy can be found at Appendix 1, policy 1.9 with the major requirements of the code detailed below.

2.3 IFRS 9 requires the Council to recognise a financial asset or a financial liability in its balance sheet when it becomes party to the contractual provisions of the instrument. At initial recognition, the Council measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. This is explained in more detail at sections 2.4 to 2.8.

Financial Liabilities

2.4 All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that the Council designates to be measured at fair value through profit or loss.

Financial Assets

2.5 When the Council first recognises a financial asset, it classifies it based on its business model for managing the asset and the asset's contractual cash flow characteristics, as follows:

- Amortised cost - a financial asset is measured at amortised cost if both of the following conditions are met:
    - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Fair value through other comprehensive income - financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

- Fair value through profit or loss - any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

Fair value option

2.6 The Code allows the Council to, at initial recognition, irrevocably designate a financial asset or liability that would otherwise have to be measured at fair value through profit or loss to be measured at fair value through other comprehensive income.

Impairment

2.7 The Code also requires impairments of financial assets to be recognised in stages as follows:

Stage 1 - as soon as a financial instrument is purchased, a 12 month Expected Credit Losses (ECL) assessment is conducted. If the assessment identified a 12 month ECL and if material, then the ECL are recognised in the comprehensive income and expenditure statement (CIES) and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For financial assets, interest revenue is calculated on the gross carrying amount (i.e. without deduction for expected credit losses).

Stage 2 - if the credit risk increases significantly and is not considered low, full lifetime expected credit losses are recognised in the CIES. The calculation of interest revenue is the same as for Stage 1.

Stage 3 - if the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortised cost (i.e. the gross carrying amount less the loss allowance). Financial assets in this stage will generally be assessed individually and lifetime expected credit losses are recognised on these financial assets.

2.8 The result is impairment losses are recognised much sooner in the financial statements of the Council compared to the previous standard. In addition any changes to the fair value of a financial instrument will have a direct impact on the General Fund balance and therefore the resources of the Council. Previously any movements would have been reversed out to the Available for Sale Financial Instrument Reserve.

IFRS 15 - Revenue from Contracts with Customers

2.9 A further amendment to an accounting policy relates to the Revenue Recognition policy following the adoption of IFRS 15 Revenue from Contracts with Customers, presented in Appendix 1, policy 1.16. IFRS 15 establishes the principles that the Council applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a service recipient. When applying IFRS 15, the Council recognises revenue to reflect the transfer of promised goods or services to a service

recipient in an amount that reflects the consideration to which the Council expects to be entitled in exchange for those goods or services. As reported in the 2017/18 Statement of Accounts this change has had no material impact on the Council.

Other Accounting Policies

2.10 The remainder of the Council's accounting policies are consistent with those previously presented at Audit Committee. There have been small amendments to streamline narratives and improve presentation but this has not affected the content or essence of the policies.

2.11 Best practice principles dictate that the proposed accounting policies which will be used to prepare the Council's 2018/19 Statement of Account are approved by Audit Committee.

3. **Critical Judgements**

3.1 In line with International Financial Reporting Standards (IFRS) and the Code, the Council is required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. These are shown at Appendix 2.

3.2 Critical Judgements include, which schools property, plant and equipment and PFI should be included on the Council's balance sheet, which entities fall within the Council's group boundary and which properties should be classified as investment property.

3.3 One additional judgement the Council has included in 2018/19 is regarding the Council's shareholding in Manchester Airport Holdings Limited (MAHL). As detailed in section 2 IFRS 9 Financial Instruments was adopted by the Code on 1 April 2018, and the standard introduced three new categories of classification in which financial assets should be allocated, amortised cost, fair value through profit and loss and fair value through comprehensive income. The majority of the Council's financial assets are simple instruments for collecting contractual cash flows i.e. solely for the payment of principal and interest.

3.4 Up to 31 March 2018 the shareholding in MAHL was held as an 'Available for Sale Financial Asset' and measured at fair value each year. Any change in fair value was posted to Other Comprehensive Income and Expenditure and accumulated gains and losses have been held in an Available-for-Sale Financial Instruments Reserve. As at 1 April 2018 the 'Available for Sale Financial Asset' category is no longer available. The new standard sets out that investments in equity should be classified as fair value through profit and loss. The shareholding in MAHL is an investment in an equity instrument and as such, gains and losses on changes in fair value are recognised through profit and loss which could have a significant impact on the Council's General Fund balance, unless there is an election to designate the asset as fair value through other comprehensive income.

3.5 The shareholding is a strategic investment and not held for trading and therefore the Council has the option to designate it as fair value through other comprehensive income. This would mean that there is no impact on the revenue budget but the decision is to designate the investment into Fair Value through other Comprehensive Income is irrevocable. After consultation with officers, external treasury advisors and other Greater Manchester Authorities the Council has determined that the more prudent approach is to designate the shareholding as a strategic investment with changes in fair value treated as Other Comprehensive Income. This means that any gains or losses on the valuation of the shareholding will be transferred to a Financial Instruments Revaluation Reserve.

4 **Options/Alternatives**

4.1 The options that Audit Committee Members might consider in relation to the contents of this report are:

a) not to approve any of the accounting policies or note the critical judgements.
b) not to approve some of the accounting policies or note the critical judgements.
c) to approve all the accounting policies and note the critical judgements.

5 **Preferred Option**

5.1 The preferred option is option C at paragraph 4.1.

6 **Consultation**

6.1 Consultation has taken place with the Councils External Auditors, Mazars LLP.

7 **Financial Implications**

7.1 Dealt with in the body of the report.

8 **Legal Services Comments**

8.1 There are no Legal implications.

9 **Co-operative Agenda**

9.1 Improving the quality and timeliness of the financial information available to citizens of Oldham supports the cooperative ethos of the Council.

10 **Human Resources Comments**

10.1 There are no Human Resource implications.

11 **Risk Assessments**

11.1 There are no risk implications as a result of this report.

12 **IT Implications**

12.1 There are no IT implications as a result of this report

13 **Property Implications**

13.1 There are no Property implications.

14 **Procurement Implications**

14.1 There are no Procurement implications.

15 **Environmental and Health & Safety Implications**

15.1 There are no Environmental and Health & Safety implications as a result of this report.

16 **Equality, community cohesion and crime implications**

16.1 There are no Equality, community cohesion and crime implications.

17 **Equality Impact Assessment Completed?**

17.1 Not Applicable

18 **Key Decision**

18.1 No

19 **Key Decision Reference**

19.1 Not Applicable.

20 **Background Papers**

20.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background Papers are provided at Appendices 1 and 2.
Officer Name: Lee Walsh
Contact No: 0161 770 6608

21 **Appendices**

21.1 Appendix 1 – 2018/19 Proposed Accounting Policies
Appendix 2 – 2018/19 Proposed Critical Judgements

APPENDIX 1

Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

Unless otherwise stated the convention used in this document is to round to amounts to the nearest thousand pounds. All totals are the rounded totals of unrounded figures and, therefore, may not be the strict sums of the figures presented in the text or tables. Throughout the Statements all credit balances are shown with parentheses e.g. (£1,234).

1.2 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Council has a £10,000 de minimis limit for the recognition of Capital Expenditure.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash

flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.
Assets are then carried in the Balance Sheet using the following measurement bases:

- community assets, infrastructure assets and assets under construction – depreciated historical cost.
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).
- surplus assets – fair value, determined by the measurement of the highest and best use value of the asset.
- all other operational assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included on the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant Portfolio line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant Portfolio line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant Portfolio line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- infrastructure – straight-line allocation up to 40 years.

Revaluation gains are depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Component Accounting

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item and/or whose life is significantly different to the life of the host (main) asset, the components are depreciated separately.

Components are recognised in the financial year where:

- there has been a revaluation of assets;
- there has been an acquisition of assets within the financial year; and
- enhancement expenditure has been incurred within the financial year.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value of disposals is not a charge against the General Fund, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. If the disposal relates to housing assets a proportion of the capital receipt is payable to the Government (75% for dwellings, 50% for land and other assets, net of statutory deductions

and allowances). The balance of receipts is required to be credited to the Useable Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

1.3 Heritage Assets

The Council's Heritage Assets are held by the Council principally for their contribution to knowledge and/or culture. They are recognised and measured, including treatment of revaluation gains and losses, in accordance with the Council's accounting policies on Property Plant and Equipment. However, some of the measurement rules are relaxed allowing the Council's Heritage Assets to be included on the Balance Sheet at their insured value where available. Where insurance valuations are not available there is a narrative disclosure.

Heritage assets are deemed to have an indefinite life, therefore are not depreciated as the charge made would be minimal and immaterial. Nevertheless, where there is evidence of physical deterioration to a Heritage Asset, or doubts arise to its authenticity, the value of the asset has to be reviewed.

1.4 Investment Property

Investment properties are those assets that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset. Investment properties are not depreciated and an annual valuation programme ensures that they are held at highest and best use value at the Balance Sheet date. Gains and losses on revaluation are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and charged to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Useable Capital Receipts Reserve.

1.5 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the Property, Plant and Equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- The value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge is raised on the outstanding Balance Sheet liability and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The interest rate is calculated for each scheme so that the Balance Sheet liability is zero at the end of each contract.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability.
- Lifecycle replacement costs – are split between revenue and capital costs. Revenue lifecycle costs are debited to the relevant service in the Comprehensive Income and Expenditure Statement. Capital lifecycle costs are debited to Property Plant and Equipment to reflect the enhancement of the PFI Asset.

1.6 Accounting for Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools are considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts. The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation Trust
- Foundation

Schools' non-current assets (school buildings and playing fields) are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body own the assets or have had rights to use the assets transferred to them through a licence arrangement.

When a maintained school converts to an Academy, the schools non-current assets held on the Council's Balance Sheet are treated as a disposal. The carrying value of the asset is written off to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.7 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the

General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

1.8 Capital Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in the approved Minimum Revenue Provision (MRP) policy. Depreciation, revaluation and impairment losses, and amortisation are replaced by MRP. This adjusting transaction is included in the Movement in Reserves Statement with the Capital Adjustment Account charged with the difference between the two amounts.

1.9 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. When a premium or discount has been incurred and paid in full by a grant from an external body it is accounted for in full in the year that the grant is received. The reconciliation of amounts charged to the CIES to the

net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Councils financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the accounting policy set out in section 1.23 Fair Value Measurement.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

IFRS 9 Financial Instruments sets out that investments in equity should be classified as fair value through profit and loss unless there is an irrevocable election to recognise changes in fair value through other comprehensive income. The Council will assess each investment on an individual basis and assign an IFRS 9 category. The assessment will be based on the underlying purpose for holding the financial instrument.

Any changes in the fair value of instruments held at fair value through profit or loss will be recognised in the net cost of service in the CIES and will have a General Fund impact.

Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)

The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI). This was previously classified as an Available For Sale asset at 31 March 2018.

The Council has made an irrevocable election to designate the asset as FVOCI on the basis that it is held for non-contractual benefits, it is not held for trading but for strategic purposes. The asset was transferred to the new asset category on 1 April 2018.

The asset is initially measured and carried at fair value.

The value is based on the principal that the equity shares have no quoted market prices and is based on an independent appraisal of the company valuation.

Dividend income is credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus or Deficit on the Provision of Services.

The same accounting treatment was adopted in the prior year when the asset was classified as Available for Sale, except that accumulated gains and losses on the available for sale asset were previously held in an Available-for-Sale Financial Instruments Reserve at 31 March 2018. The balance on this reserve was transferred to the new Financial Instruments Revaluation Reserve as at 1 April 2018.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Instruments Entered Into Before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

1.10 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave, flexi and time off in lieu (TOIL) as well as bonuses and non-monetary benefits (e.g. mobile phones) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

Employee Accumulated Absence Accrual

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the current accounting year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday entitlement occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant services lines in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Greater Manchester Local Government Pension Scheme, administered by Tameside Metropolitan Borough Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by EA Finance NHS Pensions.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The People and Place Portfolio line (previously Economy, Skills and Neighbourhoods) in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pension Scheme in the year. The Health and Adult Social Care Community Services Portfolio line (previously Health and Wellbeing) in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Greater Manchester Local Government Pension Scheme

The Greater Manchester Local Government Pension Scheme is accounted for as a defined benefits scheme.

The liabilities of the Greater Manchester Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method; an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of future earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate (based on the indicative rate of return on a basket of high quality corporate bonds, Government gilts and other factors).

The assets of the Greater Manchester Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

The change in the net pension liability is analysed into following components:

- current service cost – the increase in liabilities as a result of years of service earned in the current year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- net interest on the net defined benefit liability - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurement comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Greater Manchester Pension Fund - cash paid as employer contributions to the pension scheme in settlement of liabilities; not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.11 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that may not be collected.

1.12 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk a change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.13 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the

obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim) it is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.14 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and

contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where revenue grants are credited to the Comprehensive Income and Expenditure Statement but have yet to be used to fund revenue expenditure, it is posted to the Revenue Grant Reserve. When eligible expenditure is incurred in future years the grant is transferred back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

1.15 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are held to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council. These reserves are further explained in the relevant policies.

1.16 Revenue Recognition

Revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

1.17 Tax Income

Council Tax, Retained Business Rates and Top-up income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

Business Rates, Top-up and Council Tax income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a billing Authority, the difference between the Business Rates and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. Each major preceptor's share of the accrued Business Rates and Council Tax income is available from the information that is required to be produced in order to prepare the Collection Fund Statement.

Business Rates and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

Revenue relating to Council Tax and Business Rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

1.18 Overheads and Support Services

The costs of overheads and support services are charged to the relevant services in accordance with the Authority's arrangements for accountability and financial performance, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – changes in past service costs and impairment losses chargeable on Assets Held for Sale.

Corporate and Democratic Core is identified as a separate heading in the Comprehensive Income and Expenditure Statement. Non Distributed Costs form part of the Capital, Treasury and Technical Accounting Portfolio line with the Council's local reporting format.

1.19 Value Added Tax (VAT)

Value Added Tax payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.20 Interests in Companies and Other Entities

The Council has material interests in external entities that are classified as subsidiaries and therefore group accounts have been prepared. In the Council's single-entity accounts the Council's interest in companies and other entities are recorded as financial assets at cost less any impairment. Any gains or losses are recognised in the Comprehensive Income and Expenditure Statement.

1.21 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.22 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Adjusting Events -Those events that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Non-Adjusting Events - Those events that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and either their estimated financial effect or a statement that such an estimate cannot be made reliably.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.23 Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external valuers to provide a valuation of its non-financial assets and liabilities, for recognition or disclosure as appropriate, in line with the highest and best use definition within IFRS 13 Fair Value Measurement. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

This page is intentionally left blank

Critical Judgements in Applying Accounting Policies

The following disclosure sets out critical judgements applied to the accounting policies of the Council that have a significant impact on the presentation of the financial statements. Critical estimation uncertainties are described in Note 37.

Upfront pension payment

The Council is liable to make contributions towards the cost of post-employment benefits. For the 3 year period 2017/18 – 2019/20 the Council has agreed with the Greater Manchester Pension Fund (GMPF) that the employer contributions payable to the Local Government Pension Scheme (LGPS) can be paid as a single up-front payment. Subsequently, on 13 April 2017 the Council paid £41.544m based on an estimated pensionable payroll of £72.000m per annum in order to make a budget saving. In line with the Council's accounting policies the amount relating to 2017/18 has been accounted for in year, the amounts relating to 2018/19 and 2019/20 have been offset against the pension liability in the balance sheet. The pension reserve will be aligned with the pension liability in 2019/20 as the up-front payment arrangements are accounted for. For further details see note 30 Defined Benefit Pension Schemes.

Accounting for Schools – Balance Sheet Recognition of Schools

The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises school land and buildings on its Balance Sheet where it directly owns the assets or where the school or school Governing Body own the assets or where rights to use the assets have been transferred from another entity.

Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body.

The Council has completed a school by school assessment across the different types of schools it controls within the Borough. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. The types of schools that have been assessed are shown below:

Type of School	No. of Primary Schools	No. of Secondary Schools	No. of Special Schools	Total
Community	30	1	1	**32**
Voluntary Controlled (VC)	5	-	-	**5**
Voluntary Aided (VA)	28	1	-	**29**
Foundation/Foundation Trust	1	1	-	**2**
Maintained Schools	**64**	**3**	**1**	**68**
Academies	22	10	4	**36**
Total	**86**	**13**	**5**	**104**

All Community schools are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet.

The Council has entered into Private Finance Initiative (PFI) agreements to build and operate three schools in the Borough. One is a VA school, one is a Foundation Trust school and the remaining school is an Academy. Whilst the land which the buildings are sited on has been transferred to the respective Diocese, Trusts and Academy, the ownership of the buildings is determined by who holds the balance of control in line with accounting standards. The Council considers the buildings associated with these schools should be included on its Balance Sheet because:

- The reversion clause within the PFI agreement results in the Council having a residual interest in the buildings at the end of the agreement
- The services provided and the use of the building is controlled by the Council through the PFI agreement
- The PFI agreement is between the PFI contractor and the Council

Legal ownership of VC school land and buildings usually rests with a charity, normally a religious body. Four VC schools are owned by the Diocese who has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Council's Balance Sheet. The remaining VC school land and building are owned by the Council and included on the Balance Sheet.

For the remaining VA schools, legal ownership of the VA school land and buildings rests with the relevant Diocese. The Diocese has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Council's Balance Sheet.

Foundation and Foundation Trust schools were created to give greater freedom to the Governing Body responsible for school staff appointments and who also set the admission criteria. There are two Foundation schools in the borough, for one school, the Governing Body has legal ownership of the land and buildings and thus are included on the Council's Balance Sheet. For the remaining Foundation Trust school, a separate Trust owns the land and buildings so these assets are not included on the Council's Balance Sheet.

Academies are not considered to be maintained schools in the Council's control. The land and building assets are not owned by the Council and are therefore not included on the Council's Balance Sheet.

Group Boundaries

The Council carries out a complex range of activities, often in conjunction with external organisations. Where those organisations are in partnership with or under the ultimate control of the Council a judgement is made by management as to whether they are within the Council's group boundary. This judgement is made in line with the provisions set out in the Code and relevant accounting standards.

Those entities which fall within the boundary and are considered to be material are included in the Council's group accounts. Profit and loss, net worth, and the value of assets and liabilities are considered individually for each organisation against a materiality limit set by the Council. An entity could be material but still not consolidated if all of its business is with the Council and eliminated on consolidation – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts. The assessment of materiality also considers qualitative factors such as whether the Council depends significantly

on these entities for the continued provision of its statutory services or where there is concern about the level to which the Council is exposed to commercial risk.

The Council has assessed its group boundary for 2018/19 and has identified two subsidiaries who are considered to be material and will be consolidated into its group accounts, they are MioCare Group CIC and The Unity Partnership Limited. Further details can be found in the group accounts in section 5.

Investment Properties

Investment properties have been assessed using the identifiable criteria under the international accounting standards and are being held for rental income or for capital appreciation. Properties have been assessed using this criteria, which is subject to interpretation to determine if there is an operational reason for holding the property such as regeneration.

Airport Investment

The Council has a 3.22% shareholding in Manchester Airport Holdings Limited and up to 31 March 2018 the shareholding was held as an 'Available for Sale Financial Asset' and measured at fair value each year. Any change in fair value is posted to Other Comprehensive Income and Expenditure and accumulated gains and losses have been held in an Available-for-Sale Financial Instruments Reserve.

With the adoption of accounting standard *IFRS 9 Financial Instruments*, the 'Available for Sale Financial Asset' category is no longer available. The new standard sets out that investments in equity should be classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income. The investment in Manchester Airport Holdings Limited is an equity instrument and as such, gains and losses on changes in fair value would recognised through profit and loss.

Classifying the shareholding as fair value through profit and loss would mean that changes in valuation are immediately recognised within the Council's Cost of Services. This would mean that the Council's revenue budget is susceptible to increased risk from volatility in the share valuations. Any major fluctuations in the valuation of the shareholding would have a significant impact on the General Fund balance.

The shareholding is a strategic investment and not held for trading and therefore the Council has the option to designate it as fair value through other comprehensive income. This would mean that there is no impact on the revenue budget, as set out above this decision is irrevocable. After consultation with officers, external treasury advisors and other Greater Manchester Authorities who have the same shareholding as the Council and, having considered the impact that future share valuations could have on the Council's revenue budget, the Council has determined that the more prudent approach is to designate the shareholding as a strategic investment with changes in fair value treated as Other Comprehensive Income. This means that any gains or losses on the valuation of the shareholding will be transferred to a Financial Instruments Revaluation Reserve.

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank