Governance, Audit, Risk Management and Standards Committee AGENDA

DATE: Tuesday 31 January 2017

TIME: 7.30 pm

VENUE: Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY

MEMBERSHIP (Quorum 3)

Chair: Councillor Antonio Weiss

Councillors:

Ghazanfar Ali	Barry Macleod-Cullinane (VC)
Mrs Chika Amadi	Amir Moshenson
Margaret Davine	Bharat Thakker

Reserve Members:

1. Barry Kendler	1. Kanti Rabadia
2. Kairul Kareema Marikar	2. Pritesh Patel
3. Jeff Anderson	3. Chris Mote
4. Nitin Parekh	

Contact: Frankie Belloli, Senior Democratic Services Officer
Tel: 020 8424 1263 E-mail: frankie.belloli@harrow.gov.uk

Harrow COUNCIL LONDON

Useful Information

Meeting details:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:
http://www.harrow.gov.uk/site/scripts/location.php.

Filming / recording of meetings

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

Please note that proceedings at this meeting may be photographed, recorded or filmed. If you choose to attend, you will be deemed to have consented to being photographed, recorded and/or filmed.

When present in the meeting room, silent mode should be enabled for all mobile devices.

Meeting access / special requirements.

The Civic Centre is accessible to people with special needs. There are accessible toilets and lifts to meeting rooms. If you have special requirements, please contact the officer listed on the front page of this agenda.

An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

Agenda publication date: Monday 23 January 2017

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

(i) to take the place of an ordinary Member for whom they are a reserve;
(ii) where the ordinary Member will be absent for the whole of the meeting; and
(iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
(iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Committee;
(b) all other Members present.

3. MINUTES (Pages 5 - 10)

That the minutes of the meeting held on 6 December 2016 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

[The deadline for receipt of public questions is 3.00 pm on 26 January 2017. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

8. EXTERNAL AUDIT PLAN 2016-17 (Pages 11 - 32)

Report of the Director of Finance

9. INFORMATION REPORT - AUDIT REPORT ON GRANT CERTIFICATIONS 2015-16 (Pages 33 - 44)

Report of the Director of Finance

10. INFORMATION REPORT: INTERNAL AUDIT AND CORPORATE ANTI-FRAUD TEAM: MID-YEAR REPORT AND PLAN UPDATE 2016/17 (Pages 45 - 76)

Report of the Corporate Director, Resources and Commercial

11. INFORMATION REPORT: RISK MANAGEMENT STRATEGY AND POLICY (2016/17- 2019/20) (Pages 77 - 116)

Report of the Corporate Director, Resources and Commercial

12. TREASURY MANAGEMENT STRATEGY STATEMENT INCLUDING PRUDENTIAL INDICATORS, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2017/18
(Pages 117 - 162)

Report of the Director of Finance

13. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

AGENDA - PART II - NIL

*** DATA PROTECTION ACT NOTICE**
The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE

MINUTES

6 DECEMBER 2016

Chair: * Councillor Antonio Weiss

Councillors:

* Ghazanfar Ali	* Barry Macleod-Cullinane
† Mrs Chika Amadi	* Amir Moshenson
Margaret Davine	* Bharat Thakker

* Denotes Member present
† Denotes apologies received

149. Attendance by Reserve Members

Apologies were received from Councillor Chika Amadi. No Reserve Members had been appointed.

150. Declarations of Interest

No declarations of interest were made.

151. Minutes

RESOLVED: That the minutes of the meeting of the Committee held on 8 September 2016 be taken as read and signed as a correct record.

152. Public Questions, Deputations and Petitions

RESOLVED: To note that no public questions, deputations or petitions were received at this meeting.

153. References from Council and other Committees/Panels

RESOLVED: To note that no references had been received.

154. Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year Review 2016-17

The Committee received a report on the Treasury Management Mid-Year review for 2016-17 which was introduced by the Director of Finance.

During discussion of the report, the following principal points were noted in response to comments and questions from individual Members:

a) Referring to the difference between the estimate and forecast outturn of the "net financing need" in respect of housing rents (Table 12), it was confirmed that this related to additional borrowing authority for the Housing Revenue Account.

b) A request was made to provide information on forecasts looking over the same periods so that Members could make more direct comparisons; for example, some tables of data in the report covered up to 2016-17 while others forecast to 2019-20. Officers advised that other data had been sent separately to GARMS following their last meeting providing the requested information in respect of the Regeneration Programme. The purpose of the mid year report is to focus on 2016/17 hence data lighter than other reports.

c) A Member asked about the likely impact of the Markets in Financial Instruments Directive II (MiFID II), which in his opinion, would pose significant challenges. The impact of MiFID II would be assessed.

d) Referring to Table 11 (Incremental Impact of Capital Investment Decisions – Council Tax), the Director of Finance undertook to provide the information with the Council Tax and precept/levy information analysed separately.

e) Referring to Table 6 (Changes to Gross Debt), a Member pointed out that gross debt levels were at about 80% of the capital financing requirement. Officers advised that the overall capital programme contained many other financing elements such as capital grants and revenue contributions to capital. With respect to the gap between the capital financing requirement and gross debt, the Council tended to use a figure of about £30m as working capital. Importantly, there was close monitoring of capital receipts and other contributions, so that the financing requirements of the capital programme was under constant review.

RESOLVED: That the Treasury Management Mid-Year review for 2016-17 be noted and that the comments made at the meeting be referred to the Cabinet.

155. INFORMATION REPORT - Report detailing the review of the Corporate Anti-Fraud and Corruption Strategy

The Committee received a report on the Corporate Anti-Fraud and Corruption Strategy which was introduced by the Corporate Anti-Fraud Service Manager.

In response to a Member's question about the level of resources for this work, the Corporate Anti-Fraud Service Manager accepted that while additional resources would always be welcome in developing and implementing appropriate controls across the organisation, the financial pressures on the Council were well-known and there was a requirement to be realistic and proportionate about this. Significantly, there was now greater resilience and improved controls under new arrangements for delivery of the service.

The Member also enquired about controls to ensure that there was appropriate conduct in respect of some of the very substantial contracts involved in the Regeneration Programme, particularly around the decisions on relevant planning applications. It was explained that the risk register tracked such risks and separate procurement fraud work was also carried out; officers would consider Regeneration Programme projects in future plans.

Another Member was interested in whether the staff group changes had led to a greater focus on developing preventative controls as opposed to having to identify and investigate specific frauds. Officers confirmed that the principal benefits of the merger of staff groups was in the improved coordination of activity with the identification of fraud risks more readily impacting on controls.

The Member suggested that it would be useful to analyse actual instances of fraud so that the dimensions of fraud activity and its distribution across different areas of service could be better understood. Officers confirmed that this information was logged and was reflected in mid-year and full-year reports.

In response to a Member's query about staff and Member training, it was explained that a new programme for staff was in hand and there were also plans to engage with Members at their group meetings. The Member considered that it was important for these efforts to address new fraud activity using technology.

RESOLVED: That the report be noted.

156. INFORMATION REPORT- Annual Audit Letter 2015/16

The Committee received a report on the Annual Audit Letter for 2015-16 which was introduced by the Director of Finance.

In response to a Member's question, it was confirmed that the outstanding objection to the 2014-15 accounts, which related to Pinner Park Farm, had been resolved.

The Member also queried whether or not the Council accepted the auditor's judgement that the treatment of some Pension Fund transactions was not "fully compliant" with the relevant Regulations, and in particular whether the reasons for this were fundamentally about the cost of changes. Confirming that the Pension Fund Committee had considered the matter, the Director of Finance advised that efforts were made to minimise the transactions outside the specific Pension Fund bank account, but in any event, there were monthly reconciliations which closely tracked relevant transactions and therefore all the funds were accounted for. The Member suggested that the reconciliations should be signed off by staff other than the Director of Finance. The Director of Finance would document the reconciliations, sign off arrangements, and send relevant information to the members of the Committee.

A Member queried the auditor's view that there was "adequate challenge and monitoring" of savings targets given that the recent Local Government Association Peer Review of the Council had suggested that Member-level scrutiny should be improved. The Director of Finance outlined the various mechanisms for monitoring savings, including the work of commissioning panels, and underlined that the professional audit opinion of the processes was as set out in the Annual Audit Letter. She reminded the Committee that KPMG representatives had attended the last meeting when the monitoring of savings had been discussed directly with them.

RESOLVED: That the report be noted.

157. INFORMATION REPORT - Changes to arrangements for appointment of External Auditors

The Committee received a report on Changes to Arrangements for the Appointment of External Auditors which was introduced by the Head of Internal Audit.

Two Members suggested that there might be more advantage for the Council in considering Option 1, the direct standalone appointment, and they felt that it would be helpful to understand the likely costs of that option more clearly. The Head of Internal Audit advised that it was very difficult to estimate the costs involved, but it was almost certain that it would cost more than the other options and would involve the complications and cost of setting up an independent auditor panel. In response to another Member's question, she confirmed that the recommended sector-led body option would not be restricted to one firm of auditors, but would be packaged so that a range of accredited companies were allocated across the councils subscribing to the service. It was understood that subscription to, and continuation in, the sector-led body service provided by Public Sector Audit Appointments Ltd. would not be dependent on membership of the Local Government Association.

RESOLVED: That the report be noted.

158. EXCLUSION OF PRESS AND PUBLIC

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

Item	Title	Reason
14.	Information Report – Corporate Risk Register, Quarter 2, 2016-17	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
15.	Information Report – Internal Audit/Corporate Anti-Fraud Team Update: Oral Report	Information under paragraphs 1 (contains information relating to any individual) and 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

159. INFORMATION REPORT - Corporate Risk Register: Quarter 2, 2016/17

The Committee received a report on the Corporate Risk Register (Quarter 2, 2016-17) which was introduced by the Head of Internal Audit.

A Member referred to addressing wider risks associated with national economic trends and regulatory changes. It was explained that individual service managers were expected to track impending legislative changes and assess possible impacts; the risks were also moderated by the Corporate Strategic Board which considered broader national trends and risks. The Head of Audit confirmed that the possible risks to the Regeneration Programme raised by a Member is in relation to the impact of the Markets in Financial Instruments Directive II (MiFID II) during discussion of an earlier agenda item, would be considered by officers.

Another Member asked about the response to the significant risk identified in relation to homelessness which could amount to £2m. The Director of Finance advised that a £2m reserve had been established during the 2015/16 outturn process (£1m Welfare Reform Reserve and £1m Local Enterprise Partnership funding which was no longer top-sliced).

A Member registered his disappointment at the response to Brexit risks as outlined in the report, which he considered a short-term perspective which failed to address legislative and procurement changes and the implications in respect of EU nationals leaving the country. The Chair agreed that the longer-term issues should also be considered as the implications for Brexit became clearer.

A Member sought clarification of the number of new homes being supported by the Council. It was confirmed that this would be 100 homes spread over two or three financial years and that over 50 had already been secured. The Director of Finance would ensure that the up-to-date figures were provided to Committee members.

A Member suggested that the grading of risks in the register could be revised so that there was greater differentiation since currently most of the risks appeared to cluster at the most serious level. It was confirmed that this point would be considered in the context of the new strategy which had been drafted.

RESOLVED: That the report be noted.

160. INFORMATION REPORT - Internal Audit/Corporate Anti-Fraud Team Update: Oral Report

The Head of Internal Audit reported orally to the Committee on the work of the Internal Audit and Corporate Anti-Fraud Teams, presaging the mid-year report which would be brought to the next meeting. She gave the Committee information on two cases which were being investigated and were having a significant impact on planned work.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 7.35 pm, closed at 9.11 pm).

(Signed) COUNCILLOR ANTONIO WEISS
Chair

REPORT FOR:	**GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**
Date of Meeting:	31 January 2017
Subject:	**INFORMATION REPORT** - External Audit Plan 2016/17
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	External Audit Plan 2016/17

Section 1 – Summary and Recommendations

This report provides the Committee with an opportunity to consider the External Audit Plan 2016/17 from the Council's external auditors

Recommendation

The Committee is asked to note the External Audit Plan

Reason

To keep the Committee informed of the planned external audit work

Harrow COUNCIL LONDON

Section 2 – Report

Background

External Audit Plan for 2016/17

1. The External Audit Plan provides the Council with clarity about how the external audit of the Council's accounts and Pension Fund accounts for 2016/17 will be conducted. The audit plan sets out the following :-

    a. Estimated overall materiality – this has been set at £8m for the General Fund and £10m for the Pension Fund;
    b. Impact on the Council's Statement of Accounts resulting from the developments and changes from the 2016/17 Code of Practice on Local Authority Accounting of which there are no significant changes, but there will be some changes to the layout of the Comprehensive Income and Expenditure Account and Movement In Reserves Statement;
    c. Scope of audit work and approach;
    d. Significant and other audit risks as summarised below:-
        i. Management override of controls – which would include testing of journals, significant accounting estimates and any unusual transactions;
        ii. Potential for fraudulent revenue recognition - this is not considered a high risk as there are limited incentives and opportunities to manipulate the way income is reported. Standard fraud procedures will be undertaken.
        iii. Valuation of property, plant and equipment;
        iv. Valuation of Pension Fund assets;
        v. Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation;
        vi. Regeneration Programme – part of Harrow's "Building a better Harrow" regeneration strategy;
        vii. Grant income recognition; and
        viii. Calculation of benefits – Pension Fund
    e. Value for Money conclusion;
    f. Auditors' responsibilities; and
    g. Audit fees and Timetable.

2. The Committee is asked to consider the plan.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

The receipt of the audit plan is included within the closure of accounts timetable for officers to ensure the plan has been received.

Equalities implications

There are no equalities implications.

Council Priorities

The Statement of Accounts provides assurance that the Council has managed its finances and delivered value for money in accordance with Council's corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	√	Chief Financial Officer
Date: 19 January 2017		

Ward Councillors notified:	**n/a**

Section 4 - Contact Details and Background Papers

Contact: Paul Gower (Interim Technical Accounting Manager) Tel: 020-8424-1335 / Email: paul.gower@harrow.gov.uk

Background Papers:
None

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External Audit Plan 2016/2017

London Borough of Harrow and Pension Fund

14 January 2017

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been set at £8 million for the Authority and £10 million for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £400k for the Authority and £500k for the Pension Fund.

Significant risks

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

- Management override of controls,
- Fraudulent revenue recognition;
- Valuation of Plant, Property and Equipment;
- Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation; and
- Valuation of pension fund assets.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Regeneration programme;
- Grant income recognition; and
- Calculation of benefits (Pension Fund).

See page 7 for more details.

Value for Money Arrangements work

Our risk assessment is ongoing and we will report any additional VFM significant risks during our audit. At this stage we consider that Financial resilience will be treated as a significant risk reflecting the relatively low level of reserves that the Authority has and the need to make significant cost savings in future years.

See pages 8 to 13 for more details

Logistics

Our team is:

- Andy Sayers, Partner
- Emma Larcombe, Senior Manager
- Alex Bradley, Assistant manager

More details are on **page 16.**

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 15.**

Our fee for the audit is £150,724 (£150,724 2015/2016) for the Authority and £21,000 (£21,000 2015/16) for the Pension Fund see **page 14.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

— *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and

— *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

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Our audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Financial Statements Audit Planning → Control Evaluation → Substantive Procedures → Completion

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 9 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2016/17 and the initial findings of our VFM risk assessment.

Risk Assessment → Identification of significant VFM risks → VFM audit work → Conclude → Reporting

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2016 to January 2017. This involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

— Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— Fraudulent revenue recognition –We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.

Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks Administering Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk : Valuation of Property, Plant and Equipment

In 2015/16 the Authority reported Property, Plant and Equipment in its financial statements of £1,030 million. The Authority must exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure that the carrying values recorded each year reflect those fair values.

Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be a significant audit risk for 2016/17.

Approach: We will undertake detailed testing of Property, Plant and Equipment as part of our final accounts audit, including specific detailed testing of the asset valuation. We will critically analyse the valuation methodology adopted by the Authority's valuer and benchmark this against national indices in order to confirm that the valuation is reasonable.

We will consider the basis on which the valuation has been carried out to ensure it is in line with *The Code of Practice on Local Authority Accounting in the United Kingdom 2016-17*. We will carry out detailed testing to ensure that revaluation gains and losses have been correctly reflected in the financial statements.

Significant Audit Risks Administering Authority and Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk : Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation

During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.

The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.

Whilst the Pension Fund only includes limited disclosures around pensions liabilities the Authorities share of the pension liabilities represent a significant element of the Authority's balance sheet.

Further there are significant judgements made in relation to the assumptions to be adopted when calculating the pension liability.

Approach : As part of our audit of the Pension Fund, we will undertake work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as largest member of the Pension Fund.

We will also review the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO.

Financial statements audit planning (cont.)

Significant Audit Risks - Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk : Valuation of Pension Fund assets

At the 31 March 2016 the Pension Fund had investments of £655 million. The investment portfolio includes private equity and derivatives both of which are complex to value and, in the case of private equity, include a degree of judgement from the Fund Manager. Given the complexity surrounding the investment portfolio we consider this to be a significant audit risk for 2016/17.

Approach: We will undertake detailed testing of investments as part of our final accounts audit, including assessing the design and operation of controls in place, obtaining independent confirmations from Fund Managers to verify year end balances, undertaking substantive testing over sales and purchases made in the year, reviewing year on year movements and comparing performance to known benchmarks and, if appropriate, engaging our specialist valuation team.

Financial statements audit planning (cont.)

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Regeneration programme

- Issue: The regeneration programme is part of the Authority's 'Building a better Harrow' regeneration strategy, which lays out plans for £1.75 billion investment in the Borough in the period 2014-2026. Work has begun on the detailed design phases and therefore capital costs will be incurred in 2016-17 in relation to the regeneration program. The Authority must exercise judgement in determining the fair value of assets under construction and the methods used to ensure that the carrying values recorded each year reflect those fair values.
- Approach: We will undertake detailed testing of assets under construction as part of our final accounts audit, including specific detailed testing of the valuation of the Civic Centre.

Calculation of benefits (PF)

- Issue: The calculation of benefits can be complex. In 2015/16 a total of £31 million was paid out by the fund. Given the quantity and complexity of these calculations there is a risk of misstatement.
- Approach: We will complete detailed sample testing over benefits paid and complete a substantive analytical review over the total benefits paid in year.

Grant income recognition

- Issue: In 2015/16 the total government grants and contributions recognised was £407 million, and total capital grants deferred was £3.9 million. Accounting for grant income is complex as the basis for revenue recognition in the financial statements will vary depending on the individual conditions associated with each grant. In addition Management must apply judgement to determine if such conditions are attached to a grant and if they have been met.
- Approach: We will perform substantive testing over a sample of revenue and capital grants received during the year. We will review grant correspondence and assess if the Authority has recognised the income in accordance with the CIPFA Code and grant agreement.

Financial statements audit planning (cont.)

Materiality

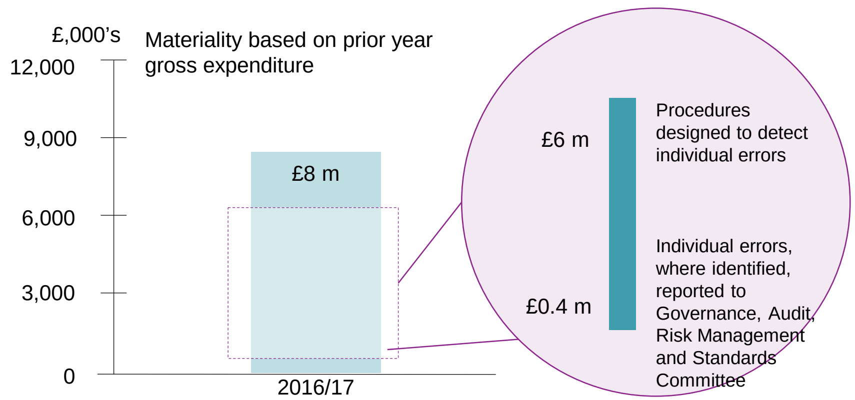
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority, materiality for planning purposes has been set at £8 million for the Authority's standalone accounts, which equates to 1.5 percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £10 million which equates to 1.5% of current assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.



Reporting to the Governance, Audit, Risk Management and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance, Audit, Risk Management and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £400k.

In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £500k.

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

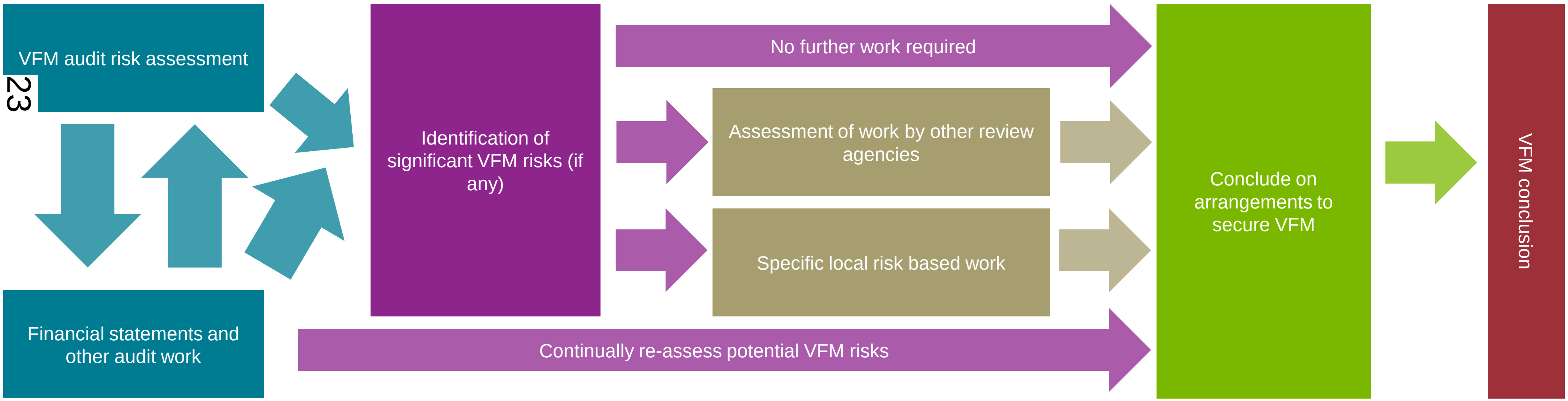
Value for money arrangements work

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.



Value for money arrangements work (cont.)

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Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ▪ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ▪ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ▪ Evidence gained from previous audit work, including the response to that work; and ▪ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ▪ Considering the results of work by the Authority, inspectorates and other review agencies; and ▪ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Document Classification: KPMG Confidential

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements 26	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	Based on our work in the prior year and our on-going discussions with Management we consider there to be a potential significant VFM risk in relation to financial resilience, which we have set out on the following page. We have not yet completed our full VFM risk assessment and will do so as part of our interim audit. If further significant risks are identified as part of this process we will report them to the Governance, Audit, Risk Management and Standards Committee in an interim report. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Significant VFM Risks

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

Financial resilience

- Risk

  The Authority needs to reduce its budget by £83 million between the period 2015/16 to 2018/19. The Authority’s net controllable revenue budget of £141m is the element of the budget that the Council can exercise control over and from where the savings must be found. We have reviewed the Revenue budget for 2016/17 and Medium Term Financial Strategy (MTFS) 2016/17- 2019/20 and noted that £30.9m savings were found in 2015/16 but a further £52.4m need to be found over the three years to 2019/20. There is a risk that the Authority falls short of it’s savings targets thereby failing to use its resources in an economical, efficient, and effective way. In addition the Council has low general fund reserves of £10m. These savings need to be achieved in an environment where external funding is decreasing and pressure on service is increasing. The Council needs to ensure that is has robust financial planning arrangements in place.

- Approach

  We will perform work to assess the Authority’s financial sustainability. This will include the identification of any significant one-off items included within the reported headline result. We will ensure these are clearly detailed in our ISA 260 report and will provide details on the nature of these items and the underlying deficit position of the Authority. We will also assess the future financial forecasts for the Authority, i.e. the Medium Term Financial Strategy (MTFS) 2016/17- 2019/20. This will include an analysis of the Authority's forecast run rate position as well as considering the core assumptions of the MTFS.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Andy Sayers and supported by Emma Larcombe as in the prior year to ensure continuity on the audit. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Finance Team and the Governance, Audit, Risk Management and Standards Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2016/17 is £150,724 for the Authority. This is in line with the 2015/16 amount of £150,724. The planned audit fee for 2016/17 is £21,000 for the Pension Fund. (2015/16 £21,000).

KPMG

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication involving regular meetings between Governance, Audit, Risk Management and Standards Committee , Senior Management and audit team

- Audit strategy and plan (Jan)
- Interim report (if required) (Apr)
- ISA 260 (UK&I) Report (Sep)
- Annual Audit Letter (Oct)

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

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Audit workflow

- Initial planning meetings and risk assessment (Jan)
- Interim audit (Mar)
- Year end audit of financial statements and annual report (Jul)
- Sign audit opinion (Sep)

Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

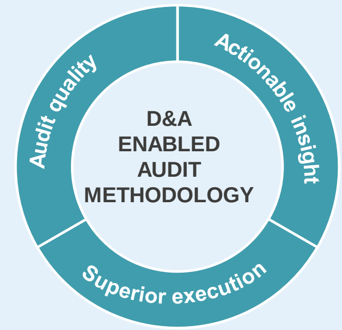
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Governance, Audit, Risk Management and Standards Committee reporting



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

— Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels of assurance.

— Focus manual procedures on key areas of risk and on transactional exceptions.

— Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the London Borough of Harrow audit last year, with the exception of Alex Bradley, who replaces Jessica Hargreaves as Assistant Manager.

Name	Andy Sayers
Position	Partner
	'My role is to lead our team and ensure the delivery of a high quality, value added external audit opinion. I will be the main point of contact for the Governance, Audit, Risk Management and Standards Committee and the Chief Executive.

Andy Sayers

Partner

Tel: 07802 975 171

Name	Emma Larcombe
Position	Senior Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Andy to ensure we add value. I will liaise with the Dawn Calvert and other Executive Directors.'

Emma Larcombe

Senior Manager

Tel: 07920 257 310

Name	Alex Bradley
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Alex Bradley

Assistant Manager

Tel: 07468 741 364

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Governance, Audit, Risk Management and Standards Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

31 her to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of January 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk .After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

REPORT FOR:	**GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**
Date of Meeting:	31 January 2017
Subject:	**INFORMATION REPORT** Audit Report on Grant Certifications 2015/16
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix - Audit Report on Grants and Returns 2015/16

Section 1 – Summary and Recommendations

This report provides the Committee with the opportunity to note the External Auditor's report on the grant certifications of 2015/16.

Recommendation

The Committee is asked to note the Audit Report on Grant Certifications 2015/16.

Reason

To keep the Committee informed of the External Auditor's work on grant certifications.

Harrow COUNCIL LONDON

Section 2 – Report

Background

Audit Report on Grant Certifications 2015/16

1. Under the Public Sector Audit Appointments (PSAA) (formerly the Audit Commission), the Authority's external auditors had just one grant claim to audit. This was the Housing Benefits subsidy claim (value £148m).
2. In addition the external auditors were required to certify two non PSAA returns, being the Teachers' Pension Contributions (value £10m) and the Pooling of Capital Receipts (value £6.7m).
3. A qualification letter was issued in respect of the Housing Benefit subsidy grant claim. This highlighted to both the Authority and the Government department that audit testing of the claim identified some errors of which there was minimal effect on the subsidy granted.
4. The audit of the Teachers' Pension return was certified (in accordance with certification instructions) with one minor amendment and no qualification, while the Pooling of Capital Receipts return (in accordance with certification instructions) was certified without amendment or qualification.

The Committee is asked to note the report from KPMG on the certification of the 2015/16 grant claim and returns (Appendix to this report).

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

The completion of the grant claim and returns are included within the closure of accounts timetable to ensure that they are submitted and audited in accordance within the approved deadlines.

Equalities implications

There are no equalities implications.

Council Priorities

The certification of the subsidy claim and the two returns provides assurance that the Council has managed its finances and delivered value for money in accordance with the Council's corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	√	Chief Financial Officer
Date: 19th January 2017		

Ward Councillors notified:	**n/a**

Section 4 - Contact Details and Background Papers

Contact: **Paul Gower** (Interim Technical Accounting Manager) Tel: 020-8424-1335
Email: paul.gower@harrow.gov.uk

Background Papers:
None

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Annual Report on grants and returns 2015/16

London Borough of Harrow

—

January 2017

Contents

The contacts at KPMG in connection with this report are:

Andy Sayers

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Emma Larcombe

Senior Manager

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines

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Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2015/16 Housing Benefit Subsidy claim. This had a value of £148 million.
- Under separate assurance engagements we certified two claims/returns as listed below:
  - Teachers Pension Grant Claim. This had a value of £10 million.
  - Pooling of Capital Receipts return , this had a value of £6.7 million.

Certification and assurance results (Pages 3-6)

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was subject to a qualification letter:

- Testing identified errors across non-HRA rent rebates, Rent Rebates and uncashed cheques.
- The errors for non-HRA rent rebates and HRA rent rebates have a maximum extrapolated error of £12,952. The DWP will consider these findings and reduce the subsidy as required.
- The Authority amended the claim for the £241 error identified with uncashed cheques.
- The number of errors identified has decreased from those identified by the previous auditors in 2014-15.

Our work on the other grant assurance engagements resulted in the following reports:

- Unqualified assurance statements were issued for both the Teachers Pension Return and the Pooling of Capital Receipts Return.
- One minor adjustment was necessary to the Teachers Pension Return as a result of our certification work this year.

Recommendations

We have made no recommendations to the Council from our work this year.

Fees (Page 7)

Our fee for certifying the Council's 2015/16 Housing Benefit Subsidy grant was £27,735, which is in line with the indicative fee set by PSAA.

Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were: £3,000 for the Teachers Pension Return and £3,500 for the Pooling of capital Receipts.

Summary of reporting outcomes

Overall, we carried out work on three grants and returns:

- **one was unqualified with no amendment;**
- **one was unqualified but required some amendment to the final figures; and**
- **one required a qualification to our audit certificate.**

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council's 2015/16 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy	1	●		●	
Other assurance engagements					
— Teachers Pension Return	2			●	●
— Pooling of Capital Receipts					●
		1	**0**	**2**	**2**

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	**Housing Benefit** **Non-HRA Rent Rebates** — The previous statutory auditor qualified the prior year claim for an error within cell 11 (non-HRA rent rebates) and another related cell (cell 28), therefore the authority was required to complete testing in line with Cumulative Audit Knowledge and Experience (CAKE). This involved selecting 40 samples from cell 28 (eligible overpayments), and testing the classification of the overpayment. This testing identified eight errors within the claim where LA delay overpayments had been incorrectly classified as eligible. — Whilst these errors do not effect actual expenditure, they can potentially affect the amount of subsidy claimed. The extrapolated effect of these errors is to overstate cell 28 (eligible overpayments) by £12,285.97 and understate cell 26 (LA error) by £12,285.97. **HRA Rent Rebates** — Testing of the initial sample of 20 cases identified one case where income was incorrectly calculated resulting in an overpayment due to the incorrect calculation of a claimant's income. — The previous statutory auditor qualified the prior year claim for an error within cell 55 in relation to the incorrect income being applied, therefore as with cell 28 above, the authority was required to select 40 samples from a sub population of cell 55 (limited to those claims with earned income or a private pension) and confirm the income applied was correct. This testing identified an additional three errors where the Authority had overpaid benefit as a result of miscalculating the claimants' weekly income. The effect of these errors is to overstate cell 061 (HRA rent rebate attracting full subsidy) and understate cell 065 (LA error). — Whilst these errors do not effect actual expenditure, they can potentially affect the amount of subsidy claimed. The extrapolated effect of these errors is to overstate cell 61 by £668 and understate cell 65 by £668 **Uncashed Payments** — Testing of uncashed payments identified one payment which had been incorrectly excluded from cell 179. This arose as the result of multiple returns and reissues of payments for that one case in year. The Authority reviewed the remaining population of cases and we are satisfied that this is an isolated incident. As a result the Authority has amended cell 179 by £241.76.	£241.76

Summary of certification work outcomes

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This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
2	**Grant name** — Agreeing figures on the claim back to system reports identified two errors. One on teachers contributions of (£13.55) and one for employers contributions (£25.98). The Authority has amended for both of these errors	£39.53

Fees

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Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2015/16 was £34,235.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2015/16 of £27,735. Our actual fee was the same as the indicative fee.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return	
	2015/16 (£)
Housing Benefit Subsidy claim	27,735
Teachers Pension	3,000
Pooling of Capital Receipts	3,500
Total fee	**34,235**

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REPORT FOR: **GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**

Date of Meeting:	31 January 2017
Subject:	**INFORMATION REPORT – Internal Audit and Corporate Anti-fraud Mid-Year Report and Plan Update 2016/17**
Responsible Officer:	Tom Whiting – Corporate Director Resources and Commercial
Exempt:	No
Enclosures:	Appendix 1 – 2016/17 Internal Audit Mid-Year Report + Quarter 3 & Plan Update Appendix 2 – Corporate Anti-fraud Team Mid-Year Report + Quarter 3 Update Appendix 3 – Fraud Referrals

Section 1 – Summary

This report sets out progress against the 2016/17 Internal Audit and Corporate Anti-fraud plans.

FOR INFORMATION

Section 2 – Report

Introduction

2.1. Annually, the Governance, Audit, Risk Management and Standards Committee considers a mid and full year Internal Audit and Corporate Anti-Fraud report covering progress against the agreed plans. This is the mid-year report for 2016/17 and also covers progress in Quarter 3 and an update on the Internal Audit annual plan.

Internal Audit Mid-year Results (Appendix 1)

2.2 Overall 47% of the plan was completed at mid-year 2% higher than the target (45%). This is better than expected with all key areas of work, such as core financial systems, the annual review of governance and the Annual Governance Statement being completed.

2.3 In the first quarter of every financial year the work of the Internal Audit team concentrates on the authority's core financial systems. The systems are reviewed on a 3 year risk based cycle. Three of the 9 systems were reviewed in the first quarter of 2016/17 and control self-assessments were completed for the other 6 systems. In addition, to satisfy the requirements of the External Auditors, managers were asked to review and update systems documentation and Internal Audit undertook walkthrough tests to confirm the actual system in operation for all core financial systems. Out of a total of 31 controls reviewed, 22 (71%) were fully operating, 8 (26%) were substantially operating and 1 (3%) was partially operating.

2.4 For 2016/17 the performance indicators have been reviewed and streamlined. Overall, 3 (75%) of the Internal Audit performance targets have been met or exceeded. One (25%) of the performance targets has been exceeded, 2 (50%) have been fully met and 1 (25%) target has not been met. Performance indicator 1 (recommendations agreed for implementation) has not been met - 2 recommendations out of a total of 22 were not agreed, 1 of these was a medium risk and 1 a low risk.

2.5 The result for the corporate performance indicator shows that whilst 69% of recommendations had been implemented at the time of follow-up a further 27% are planned for implementation giving an expected implementation rate of 96% exceeding the 90% target.

Internal Audit: Quarter Three Update

2.6 Although good progress was made with planned work in Q3 (Appendix 1, Table 8) a number of additional/emerging risks (Appendix 1, Table 10) have had an impact and along with a slight reduction in resources will continue to impact in Q4.

Internal Audit 2016/17 Plan Update

2.7 The nature of risk based planning, as opposed to the more traditional cyclical planning, requires a more flexible approach to be taken to enable the Internal Audit service to address risks facing the Council as they change. Over the last few years this has resulted in changes being made to the plan at mid-year to recognise emerging risks. In-year changes to audit resources can also impact on the plan and are usually also picked up in the mid-year review.

2.8 During the development of the 2016/17 audit plan it was not known that one member of the team would be on maternity leave starting in Q3 however this short-fall in resources will be mitigated to an extent by another officer's early return from maternity leave in Q4. The impact has been further mitigated by the flexible use of the resource brought in to support the Council's Risk Management function resulting in only a 40 day reduction of resources available to complete the 2016/17 plan.

2.9 It is estimated that 103 audit days will be required to review emerging risks in the 2016/17 plan and to compensate for this reviews equating to 105 audit days have been taken out of the plan (Appendix, Table 11). Wherever possible reviews removed from the plan are those that due to service developments it is more appropriate to delay the review or where, with the agreement of management, the risk is not considered as high as emerging risks. These reviews taken out of the 2016/17 plan will automatically be considered for inclusion in the 2017/18 audit plan.

Internal Audit Peer Review

2.10 A quality assurance and improvement programme that covers all aspects of the internal audit activity is a requirement of the Public Sector Internal Audit Standards (PSIAS). A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

2.11 The quality assurance and improvement programme must include both internal and external assessments. Internal assessments include on-going monitoring of the performance of the internal audit activity and periodic self-assessments. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

2.12 After the PSIAS came into force in 2013 the Internal Audit Teams of the London Boroughs agreed to set up a programme of Peer Reviews based on a self-assessment with independent external validation. A Peer Review of the Harrow's Internal Audit service will be undertaken during Q4 the results of which will be reported to the next GARMS Committee meeting.

Corporate Anti-Fraud Team (CAFT) 2016-17 Progress Against Plan (Appendices 2 and 3)

2.13 Of the 15 objectives in the CAFT Service Plan 2016-17, 2(13%) objectives have been completed up to the end of Q3, 9(60%) are on target to be met, 2(13%) are on-going, 1(7%) has been pushed back to June 2017 for completion and 1(7%) has been put back to 2017-18 service planning for a review.

2.14 In terms of a value of fraud and corruption identified to date, what can be measured amounts to £631,000, which represents a 3:1 return on investment for the teams running costs. There is a proportion of work that the team undertakes that cannot be measured, e.g. the value of fraud awareness training which could prevent fraud occurring.

2.15 The three pieces of work identified as a priority following the team's self-assessment against the CIPFA Code of Practice for Managing the Risk of Fraud & Corruption have progressed positively during 2016-17.

2.16 The review of the Corporate Anti-Fraud & Corruption Strategy has been complete and this will pass to Council on 23rd February 2017 for approval and adoption into the Constitution. Once approved, there will be internal publicity surrounding a launch, raising awareness of the strategy and its importance in the authority in protecting public finances and taking a strong line from the top of the organisation to dealing with fraud and corruption robustly.

2.17 The work in relation to identifying fraud risks and establishing a fraud risk register is ongoing and has taken longer than intended mainly due to the sheer volume and complexity of fraud work that has come into the team during the year. The target for the completion of the fraud risk assessment and establishment of a fraud risk register has therefore been pushed back to June 2017 (originally March 2017).

2.19 The work in preparation for the National Fraud Initiative (NFI) exercise was completed on time at the end of Q3 and the authority is well positioned to pick up the matches when they are returned at the end of January 2017.

2.20 Raising awareness of fraud is progressing well with a number of sessions delivered to various parts of the authority rated as high risk of fraud and this has been complemented by the team taking part in the Housing Fair in July 2016 and involvement in the Channel Five TV programme 'Undercover: Nailing the Fraudsters'. The development of an e-learning fraud awareness package in 2017-18 will supplement this face to face awareness.

2.21 The volume and diversity of the teams work in the area of housing fraud has gone particularly well, with seven properties being recovered, in addition to two housing applications being refused and two Right to Buy applications being rejected. The partnership work with Housing Resident Services, Leasehold Services and HB Public Law Services is getting stronger and this can be demonstrated with the numbers of live cases under investigation in these areas.

2.22 No Recourse to Public Funds (NRPF) work stream has been a relatively new one having featured high on fraud risks in the Protecting the Public Purse Report 2015. The team continues to work closely with Children's Services to identify fraud in this area.

2.23 Work on revenues, blue badges and social care fraud streams is progressing well and will benefit from the risk assessment review undertaken in November so that the team focus its limited resources on areas of high risk and high value and that which has the greatest impact on the authorities' resources and finances.

2.24 In terms of objectives not on target, the work exploring commercialisation has not been commenced due to volume and complexity of fraud referrals coming into the team of higher priority, so this will be reviewed as part of the service planning process for 2017-18. A backlog of referrals experienced in Q1 and Q2 has now been cleared following a review of the fraud risk assessment process and as at the end of Q3, the team is up to date on processing of referrals.

Section 3 – Further Information

3.1 The next report on the performance of the Internal Audit and CAFT will be the 2016/17 Year-End Report to be submitted to Governance, Audit, Risk Management and Standards Committee in July 2017.

Section 4 – Financial Implications

4.1 There are no financial implications to this report.

Section 5 - Equalities implications

5.1 There are no equalities implications.

Section 6 – Corporate Priorities

6.1 Internal Audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Name: Dawn Calvert	✓	Chief Financial Officer
Date: 19 January 2017		

Section 7 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit, Tel: 0208 424 1420

Background Papers: None

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2016/17 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE

APPENDIX 1

KEY

RED assurance = 0-50% controls operating/substantially operating
RED/AMBER assurance = 51-60% controls operating/substantially operating
AMBER assurance = 61-70% controls operating/substantially operating
AMBER/GREEN assurance = 71-80% controls operating/substantially operating
GREEN assurance = 81-100% controls operating/substantially operating
Report ratings may be downgraded (D) depending on the number of high risk recommendations made (with the agreement of the Head of Internal Audit)

Mid-year Results

1. Table 1 below details the follow ups completed in 2016/17 with the original assurance rating and the re-assessed assurance rating. All assurance ratings at follow-up have been re-assessed as amber/green or green showing improvement in the control environment as a result of internal audit work.

Table 1 – Follow Ups completed in Q1&2 of 2016/17

Review	Audit Coverage	Original Assurance Rating		Re-assessed Assurance Rating
Corporate Accounts Payable Key Control	Key Control Review, systems notes	**AMBER 94% O**	**GREEN (D)**	**GREEN 100% O**
Norbury School Governance & Financial Controls	To review the adequacy, application and effectiveness of the systems in place to control schools' delegated and standards fund income and expenditure and to assess the level of compliance with Financial Regulations and Contract Procedure Rules.	**AMBER 62% O**	**GREEN 29% SO, (D)**	**GREEN 93% O 7% SO**

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Review	Audit Coverage	Original Assurance Rating	Re-assessed Assurance Rating
Business Continuity & Disaster Recovery	A review of controls over the arrangements that are in place for the prevention of system downtime through adequate resilience.	**RED 20% O** **AMBER 48% SO (D)**	**GREEN 56% O 42% SO**
Data Centre	Review of the environment and physical security controls over the IT data centre which support Harrow Council's core IT infrastructure and systems.	**RED 7% O**	**GREEN 87% O**
Harrow School Improvement Service (HSIP)	To confirm HSIP's status and to ensure that there is transparency in the financial balances and the income and expenditure accounts including compliance with Council policy and procedures.	**RED 14% O 14% SO**	**AMBER 51% O** **GREEN 37%SO (D)**
Leaseholder Service Charges	To review the adequacy, application and efficiency of the processes in place to ensure that leaseholder service charges are accurate and correctly accounted for.	**AMBER 61% O**	**GREEN**

2. Table 2 below details all the reports issued in Q1/Q2 of 2016/17 from the 2015/16 audit plan with the report assurance rating.

Table 2 – 2015/16 Plan Reports Issued in Q1&2 of 2016/17

Review	Audit Coverage	Assurance Rating	Follow-up Due
Blocked Invoices	A review of blocked invoices to establish why they occur and the controls in place to prevent them.	**RED 33% O 17%SO**	Dec 2016 Outstanding

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Review	Audit Coverage	Assurance Rating	Follow-up Due
Mandate Fraud	Controls in place to prevent mandate fraud	**RED** **33% O** **17%SO**	Dec 2016 Outstanding
Tenancy Changes	A review to ensure appropriate checks are undertaken when there is change in tenancy to mitigate the risk of fraud.	**AMBER** **58%O** **21%SO** **(D)**	Dec 2016 Outstanding

3. Table 3 below details the completed assurance report reviews issued in Q1/Q2 of 2016/17 from the 2016/17 Plan and the assurance rating.

Table 3 – 2016/17 Plan Completed Assurance Report Reviews in Q1/Q2 of 2016/17

Review	Audit Coverage	ASSURANCE RATING	Follow-up Due
Payroll	Key Control Review, walkthrough + system notes	**GREEN** **80% O** **12%SO**	None required. 4 recommendations made, none high risk, all agreed for implementation.
Treasury Management	Key Control Review, walkthrough + system notes	**GREEN** **79% O** **21%SO**	None required. 4 low risk recommendations made, all agreed for implementation.
Council Tax	Key Control Review, walkthrough + system notes	**GREEN** **87% O** **13% SO**	None required. 2 medium risk & 2 low risk recommendations made. 2 recs agreed for implementation, 2 not agreed – management have considered and accepted the level of associated risk (1 low, 1 medium). The medium risk relates to lack of clear delegations relating to write-offs.

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4. Table 4 below details the completed assurance non report reviews undertaken in Q1/Q2 of 2016/17 from the 2016/17 Plan.

Table 4 – 2016/17 Plan Completed Assurance Non Report Reviews/work in Q1/Q2 of 2016/17

Review	Audit Coverage	Comments
Housing Rents	System notes, walkthrough. CRSA	**GREEN assurance**
Corporate Accounts Payable (CAP)	System notes, walkthrough. CRSA	**GREEN assurance**
Corporate Accounts Receivable (CAR)	System notes, walkthrough. CRSA	**GREEN assurance**
Capital Expenditure	System notes, walkthrough. CRSA	**AMBER** **GREEN**
NDR	System notes, walkthrough. CRSA	**GREEN assurance**
Housing Benefits	System notes, walkthrough. CRSA	**GREEN assurance**
Corporate Governance	Annual governance review, drafting AGS, AGS Action Plan	Complete to end of Q2
Information Governance Board (IGB)	To ensure that the Council has effective polices & management arrangements covering Information governance	Complete to end of Q2
Risk Management	Q4 (2015/16) & Q1(2016/17) update of Corporate Risk Register	Complete to end of Q2
Families First Grant	Testing and Grant certification	Complete to end of Q2
Suspected Financial Irregularities + Control Reviews	Various – none significant	Complete to end of Q2
Professional Advice	Advice on risk mitigation & control	Complete to end of Q2
Liaison with External Audit	On-going liaison throughout the year	Complete to end of Q2
Audit Management	e.g. planning, GARM reporting	Complete to end of Q2

Internal Audit Performance Indicators

5. The performance indicators for 2016/17 have been reviewed and streamlined. Table 5 below outlines the four Internal Audit indicators agreed for the year, including the key indicator covering achievement of the IA annual plan. These indicators cover performance on projects from the 2015/16 plan and the 2016/17 plan issued in the first half of the year (i.e. up to 30/09/16).

Table 5 – Internal Audit Performance Indicator Results

	Performance Indicator	Target	Mid Year Result
1	Recommendations agreed for implementation	95%	91%
2	Follow up undertaken	100%	100%
3	Plan achieved for key control reviews	100%	100%
4	Plan achieved overall (key indicator)	45%	47%

Analysis of Results

6. Overall 3 (75%) of the performance targets have been met or exceeded. One (25%) of the performance targets has been exceeded, 2 (50%) have been fully met.

7. One (25%) of the targets was not met. Target 1, recommendations agreed for implementation - 2 recommendations out of a total of 22 were not agreed, 1 of these was a medium risk and 1 a low risk.

Corporate Performance Indicators Results

8. As with the Internal Audit performance indicators the corporate performance indicators for 2017/18 have been reviewed and streamlined. One key corporate indicator will be reported on for 2016/17 as shown below in Table 6:

Table 6 – Corporate Performance Indicator Results

	Performance Indicator	Target	Mid Year Result
1	Implementation of recommendations	90%	69% (expected to be 96%)

9. The result for performance indicator 1 shows that whilst 69% of recommendations had been implemented at the time of follow-up a further 27% are planned for implementation giving an expected implementation rate of 96% exceeding the 90% target.

Quarter 3 Update

10. Table 7 below details the reviews completed in Q3 2016/17.

Table 7 –2015/16 & 2016/17 Plan Completed Assurance Report Reviews in Q3 of 2016/17

Review	Audit Coverage	ASSURANCE RATING	Follow-up Due
Governing Body Key Decisions	A sample of schools were visited during July 2016 to undertake a review of Governing Body Key Decisions – individual reports were issued to schools (shown below) in addition to this summary.	**Across the sample of schools which were visited it was identified that the majority of key decisions had been made appropriately and recorded clearly in minutes**	N/A

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Kenmore Park Junior School – Governing Body Decisions	To review the effectiveness of the Governing Body decision making process to ensure that key decisions are made, recorded clearly and that adequate information has been provided to make the decision.	**GREEN** **85% Key decisions made appropriately and recorded clearly in minutes**	N/A
Kingsley High School – Governing Body Decisions	To review the effectiveness of the Governing Body decision making process to ensure that key decisions are made, recorded clearly and that adequate information has been provided to make the decision.	**AMBER** **50% Key decisions made appropriately and recorded clearly in minutes plus a further 20% made appropriately**	May 2017
St Josephs Primary School – Governing Body Decisions	To review the effectiveness of the Governing Body decision making process to ensure that key decisions are made, recorded clearly and that adequate information has been provided to make the decision.	**AMBER** **50% Key decisions made appropriately and recorded clearly in minutes plus a further 20% made appropriately**	May 2017
St Teresa's School – Governing Body Decisions	To review the effectiveness of the Governing Body decision making process to ensure that key decisions are made, recorded clearly and that adequate information has been provided to make the decision.	**GREEN** **90% Key decisions made appropriately and recorded clearly in minutes**	N/A
Procurement Fraud	To review the adequacy, application and effectiveness of the internal controls in place to prevent fraud within the procurement process.	**AMBER** **79% O** **GREEN** **8% SO**	June 2017
Grimsdyke School – HR Policy & Procedures	To ensure that schools have appropriate policies and procedures in place and implement them.	**16 Recommendations made and all agreed for implementation**	June 2017

Roxbourne School – HR Policy & Procedures	To ensure that schools have appropriate policies and procedures in place and implement them.	**16 Recommendations made and all agreed for implementation**	June 2017
Grange Primary School – HR Policy & Procedures	To ensure that schools have appropriate policies and procedures in place and implement them.	**13 Recommendations made and all agreed for implementation**	April 2017
Shaftesbury School – HR Policy & Procedures	To ensure that schools have appropriate policies and procedures in place and implement them.	**20 Recommendations made and all agreed for implementation**	April 2017
Glebe SIMS Personnel	To ensure that robust controls are in place in schools for the accuracy of the processing of Payroll through the SIMS Personnel system and to prevent or detect fraud.	**14 Recommendations made and all agreed for implementation**	March 2017
Pinner Park Infants SIMS Personnel	To ensure that robust controls are in place in schools for the accuracy of the processing of Payroll through the SIMS Personnel system and to prevent or detect fraud.	**17 Recommendations made and all agreed for implementation**	March 2017

11. Table 8 below details the reviews in progress during Q3 2016/17

Table 8 –2016/17 Plan Reviews in Progress in Q3 of 2016/17

Review	Audit Coverage	Progress
Hel2Let	Risk based systems review to assess fraud resilience	Almost complete
Bed & Breakfast/Temporary Accommodation	Risk based systems review to assess fraud resilience	Planning complete
Risk Management	Update of Q2 Corporate Risk Register	Complete (report to Dec GARMS meeting)

Debt Management	To ensure that a joined up corporate approach is taken to debt management	Planning in progress
Budget Management	Targeted review of budget management based on outturn	Complete - **Amber Assurance 35% O, 39% SO (D)**
Consultants/Agency workers	Review to cover appointment, vfm, expenses, use of own company	Work in Directorate complete, overview report to be drafted
Commercialisation - MyCep (PayPal/reconciliation)	To ensure adequacy, application and effectiveness of controls in place	Almost complete
Nursery Education Grant	To ensure compliance with conditions of the Grant and funding entitlement and to ensure accurate, complete and satisfactory payments of Early Education Funding to 2, 3, and 4 years olds in line with the Department of Education (DFE) Early Education and Childcare, statutory Guidance for Local Authorities (September 2014).	Complete – **Green Assurance 86% O, 14% SO**
Suspected Financial Irregularities	• Headteacher - manipulation of data • Housing Benefit - internal fraud • Banking of Income	In progress

12. Table 9 below shows work on the 2016/17 Plan not yet started that will be carried out in Q4 2016/17

Table 9 –2016/17 Plan Reviews to be undertaken in Q4 of 2016/17

Review	Audit Coverage
Corporate Governance	Annual review of governance to be started
Risk Management	Q3 Corporate Risk Register update
Follow-ups	Standard follow-ups of Red, Red/Amber & Amber reports – to be undertaken by Auditor returning from maternity leave.
Cyber Security	A review of governance in place for cyber security (PwC)

IT Strategies (Corporate & Directorate)	A review of the application of the Council's IT Strategies, how up to date and relevant they are, how they work together and how progress is being delivered/monitored (PwC)
IT Contract Management	As per Terms of Reference presented to the January GARMS Committee meeting
Cabinet Decisions	A review of the quality/robustness of information supplied in Cabinet reports to support key recommendations and ensure sound decisions
Commercialisation – Lettings Agency	To be determined in consultation with management, a mix of pro-active auditing and review
Schools	Thematic Reviews covering – Procurement
Families First (Troubled Families Grant)	Testing and Grant certification required
Public Health – Health Checks Follow Up	Follow-up to ensure that payment for health checks are verified
Multi-Agency Safeguarding Hub (MASH)	Follow-up of external review undertaken in 2015/16
Audit Plan 2017/18	Consultation on and risk assessment of reviews to be included in the 2017/18 annual audit plan.

13. Table 10 below shows emerging risks to be reviewed as part of the 2016/17 plan

Table 10 – Emerging Risks to be reviewed as part of the 2016/17 Plan

Review	Reason Added/Extended
SFI – Headteacher Manipulation of Data	Investigation instigated following information provided by an interim Headteacher, GARMS Committee briefed verbally at last meeting.
SFI – Housing Benefit Internal Fraud	Following the identification of an internal fraud (currently being investigated by CAFT) planning began to review controls within the HB system to be undertaken in Q4
Shared Service Governance	Following an enquiry from a HIA in another borough regarding a shared service for which Harrow is the lead it was established that the SS agreement is weak around governance, further enquires established that this is potential a weakness across a number of our shared service agreements.-

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SFI – Banking of Income	Following the discover that Harrow Income had inadvertently been paid into a non-Harrow bank account an audit of the reconciliation undertaken by the Financial Business Partner is to be undertaken.

14. This equates to 62 extra audit days in Q3 with a further estimated 41 days in Q4 totaling an extra 103 days in the 2016/17 plan.

15. Table 11 below shows reviews in the 2016/17 Plan that will no longer be undertaken

Table 11 – Reviews in 2016/17 Plan no longer to be undertaken

Review	Audit Coverage	Reason Omitted
Contract Management	Per-temps Contract or sample of medium contracts (to be determined by risk assessment)	Lower risk – agreed with management
Homelessness Data on Northgate	Information Security, data quality, information sharing	Updated version of Northgate is currently being implemented. Go Live February 2017 – to be re-considered for 2017/18 plan
Facilities Management Contract	Contract Management Review	Lower risk
Major Works - Leaseholders	Review of charges to leaseholders for major works	Project underway to incorporate Leasehold Management (including annual charges & major works) on Northgate for implementation in July 2017 - to be re-considered for 2017/18 plan
Regeneration Programme	Procurement Process/ Financial Management/ Land Deals to be determined via a risk process in consultation with management	Omitted on basis of resource will be c/f to Q1 of 2017/18 plan
Adult Residential Care	A review of commissioning of adult residential care	Lower risk – agreed with management

Homelessness - Preventative Work	Cost, effectiveness and vfm of preventative work	Possible new legislation from April 2017 (Homelessness Reduction Bill – Private Members Bill) which is expected to change approach to this work – agreed with management better to do after bill introduced

16. This equates to 105 audit days taken out of the original 2016/17 plan. However as 103 audit days have been added in (Table 10 above) overall this equates to a reduction of 2 audit days.

Resources

17. The cumulative effect of one member of the team's maternity leave (not known at the time of the 2016/17 planning stage) and another member of the team's early return from maternity leave reduced the number of audit days available to complete the 2016/17 plan by 70 audit days. The budget for these posts (less maternity pay) has been used to purchase support for risk management however by using this resource flexibly 30 additional audit days have been made available and thus the overall impact is a reduction of 40 audit days against the original 2017/18 plan resources of 834 audit days. This is expected to impact on the timeliness of the completion of the 2016/17 plan.

Susan Dixson
Head of Internal Audit
17/01/17

Appendix 2 – Corporate Anti-Fraud Team Mid Year Update 2016-17

	Fraud work stream	Proposed counter fraud activity	Mid Year Progress update, Q1, Q2 and Q3
	Objective: Acknowledge fraud and corruption risks, reaffirm the responsibility of the leadership team in managing these risks and assess the risk of fraud and corruption across all parts of the organisation.		
1	**Corporate fraud risk assessment**	Identify and assess Harrow's fraud risk exposure affecting the principle activities in order to fully understand changing patterns in fraud and corruption threats and the potential harmful consequences to the authority and our customers	**Objective on-going** The Head of Internal Audit, Corporate Anti Fraud Manager and Risk Manager met with the Directorate Department Management Teams early in the financial year and held discussions around fraud risks affecting their particular service areas. This will continue for 2017/18 and beyond. Capturing the required detail of relevant fraud risk information has been a challenge mainly due to capacity issues and conflicting priorities faced by the team, predominantly relating to the quantity and complexity of fraud referrals received. The information that was captured as part of these discussions was combined with other fraud risk information from national reports, the sharing of fraud information through partnerships in counter fraud networks and known fraud established and this fed into the fraud plan for the year. This on-going risk assessment work will inform establishing a fraud risk register where service areas will take responsibility for managing and mitigating fraud risks impacting their work with guidance and support from Internal Audit and Corporate Anti Fraud.
2	**Corporate fraud risk register**	Consider the development of a fraud risk register to be integrated into the existing risk management framework, where significant fraud and corruption risks will be owned and maintained by the directorates	**Objective slipped to June 2017 for completion** Given the above information on fraud risk assessment, this objective has been impacted. Additional work in relation to the risk assessment is required before the register can be drafted. This has a revised target date of June 2017 for being established.
3	**Corporate Anti-Fraud & Corruption Strategy**	Development of a counter fraud and corruption strategy that links to the Harrow's corporate priorities, the overall goal of improving resilience to	**Objective Complete for 2016/17 and monitoring ongoing** The Council's Corporate Anti Fraud & Corruption Strategy was reviewed and a draft strategy went before the GARMS Committee on 6th December 216.

		fraud and corruption and fully reflects the fraud risks faced by the authority	The strategy will go before full Council on 23rd February 2017 for approval and adoption into the Constitution.
	Objective: Prevent, detect and deter fraud and corruption impacting the organisation by raising awareness of fraud and corruption		
4	**National Fraud Initiative co-ordination role**	Plan, prepare and co-ordinate the 2016/17 National Fraud Initiative (NFI) exercise including:- • Review of all fair processing and collection notices for all data sets and submit notification to Cabinet Office by 30/06/16 • Review of all data sets specifications with service areas by 31/08/16 • Extract data from key systems by 03/10/16 • Allocate matches to service areas on 29/01/17	**Objective Complete up to the end of Q3** The NFI project met the deadlines with only a handful of minor data specification issues with some services. Work commenced in May 2016 by consulting with the service areas ensuring that all had satisfactory fair processing notices in place and resulted in the following data sets being uploaded to the Cabinet Office secure site in December 2016. • Blue Badges and Concessionary Travel Passes • Council Tax – Single Persons Discount and Council Tax Reduction • Creditor data – Standing and Historical • Electoral Roll • Housing – Current tenants and waiting list • Insurance • Alcohol Licensing • Residents Parking Permits • Payroll • Pensions • Person Budgets • Private Supported Care Homes • Right to Buy Data outputs from the project will be released at the end of January 2017 and the CAFT will be working closely with the above areas to ensure that any exceptions are picked up in a timely manner. Any suspicion of fraud and corruption will be referred to the CAFT for closer scrutiny.
5	**Corporate fraud awareness**	Raise awareness of fraud and corruption both within the authority and in the community through running an awareness campaign and the publication of fraud successes in local and national media, including the use of all forms of social media	**Objective On Target** **Fraud awareness sessions** A total of four fraud awareness for identifying fraud in housing have been delivered in conjunction with a refresher session for using credit bureau data to support housing audit work. Two sessions on identity fraud awareness training have been delivered to the No Recourse to Public Funds Team (NRPF) and a roll out programme is

			being planned for Social Workers/Customer facing roles in 2017. An e-learning fraud awareness package is currently under development and is scheduled to be implemented for all new employees to undertake from June 2017 onwards. There is also an intention to capture all existing employees by March 2019. **Publicity** The Team featured in a Housing fraud article called ***Spot It, Stop It, Save It'*** in Homing In in July 2016 and they also attended the Housing Fair on 9th July 2016 where they promoted the reporting of fraud affecting council tenancies. The Team also featured on two episodes of Channel 5's 'Under Cover: Nailing the Fraudsters' which broadcast in September 2016. The episodes featuring the team followed a planned blue badge enforcement operation in the town centre and partnership work undertaken with Housing Resident Services on a tenancy fraud case where the tenant had moved out without informing the Council. There is a Housing fraud centric media campaign commencing in Q4 which will run throughout 2017/18. The team has reviewed its reporting style and structure and is now reporting investigation work in a consistent template both internally and to management more frequently where a) there is a recommendation as a result of the investigation for management to consider and/or to improve fraud risk controls and b) to inform management of any criminal sanction to be imposed on an individual. This improved reporting style is more in keeping with Internal Audit reports and illustrates a unity and joined up approach from the team since coming together. The reports also raise awareness of fraud across the authority which is a key area of work both in the work plan and throughout the recently reviewed Corporate Anti Fraud & Corruption Strategy.
6	**Fraud liaison**	Develop and maintain effective liaison with investigation teams in other boroughs and external agencies and ensure that membership continues of the London Borough of Fraud Investigators Group (LBFIG), The	**Objective On Target** The authority has retained its membership of the National Anti Fraud Network (NAFN) for its essential role in intelligence gathering and the London Borough of Fraud Investigators Group (LBFIG). NAFN is an essential conduit for accessing 3rd party information sources which is vital for

		Local Authority Investigation Officers Group (LAIOG), the National Anti-Fraud Network (NAFN) and the European Institute for Combatting Corruption & Fraud (TEICCAF)	supporting investigation work. Officers in the team have also attended a number of Counter Fraud Conferences during the year which is important to keep abreast of current fraud trends and emerging fraud risks. Established partnerships with the Border Force, HMRC, the Home Office, the Metropolitan Police and other enforcement agencies have proven beneficial to current investigation work.
7	**Commercialisation**	Explore commercialisation opportunities with Registered Social Landlords (RSL's) in providing a fee based investigation service following the extension of the Right to Buy to the RSL's	**Objective put back to 2017/18 for service planning review** This work stream has not been possible to explore given the priorities of processing incoming fraud referrals and the loss of 1 FTE equivalent post responsible for this area of work at the start of 16/17. This will be reviewed in the service planning process for 17/18 and a decision taken on a risk basis.
	Objective: Ensure the investigation of allegations of fraud and corruption are effective, criminal conduct is punished with appropriate sanctions, established losses are pursued robustly and fraud loss avoidance is measured effectively where possible		
8	**Housing fraud**	Assess and investigate allegations of fraud and abuse in the housing system working in partnership with Housing Resident Services, Housing Needs and Harrow's RSL's including: • Seek to recover 10 social housing units subject to fraud & misuse • Prevent housing application fraud through targeted application validation and potential sampling of temporary accommodation/bed & breakfast • Prevent fraudulent Right to Buy (RTB) applications through targeted application validation	**Objective On Target** **Tenancy** Working in partnership with Housing Resident Services, 7 social housing tenancies have been recovered to date resulting in savings to authority amounting to £243,000. In 2016/17 the team has received 50 housing tenancy referrals and at present has a caseload of 40 live investigations at various stages of investigation. • 1 case has been referred to housing for repossession action and is also being considered for criminal sanction • 1 case has a possession hearing on 03/02/17 • 1 case has a bailiff eviction warrant scheduled for 16/01/17 **Housing Applications** Working in partnership with Housing Needs, 2 applications for housing have been intercepted following fraud validation checks. This has resulted in fraud loss avoidance savings of £81,000. The CAFT are fraud validating

		• Prevent mutual exchange, succession and assignment fraud through targeted application validation • Prevent abuse of the housing incentivisation scheme through targeted application validation • Undertake a housing data match on Harrow's housing stock working alongside a credit reference agency • Maintain and develop membership of the London housing fraud hub and explore other datamatch opportunities • Consider running a housing fraud centric publicity campaign to raise awareness internally and the community including an amnesty • Maximise the use of powers contained within the Prevention of Social Housing Fraud Act 2013 (PoSHFA) in terms of gathering evidence, investigation and prosecution of offenders and recovery of unlawful profit	each application that is set live on the Council's waiting list.. A total of 31 housing application referrals have been received to date and 1 other application for an incentive through the Council's under occupation scheme. Of these, 19 are live cases under investigation at various stages of investigation. 3 cases are currently with management for a criminal sanction decision 1 case has been referred to legal for potential prosecution The team lost a prosecution case in June 2016 against a husband and wife that applied to Harrow for housing and continued to bid for properties, when they already held a tenancy in Hertfordshire. The application was intercepted by the authority but it was felt that it was so serious an attempted fraud that a prosecution was appropriate and in the public interest. The case hinged around the fact that the applicants claimed to have told the Council that they had moved to Hertfordshire. The Council argued that there was no evidence they had informed anyone and that they should have notified the Housing Department. The application form which is a Locata form shared by a number of West London Boroughs stated that they need only tell the Council and not the Housing Department about any changes. This technicality shed sufficient doubt on the prosecution case and the jury found in their favour. A subsequent review of the Locata application form has now resulted in it being amended to state that the applicant needs to inform the relevant Housing Department of any changes likely to effect the status of the application. It also provides examples of types of changes to report. The authority, in losing the case could not seek to recover its legal costs which were in excess of £10,000. **RTB** Working in partnerships with Leasehold Services, HB Public Law Services and Housing Residents Services 2 RTB applications have been intercepted saving the authority £207,800. The team has received 16 RTB referrals to date or which 19 are live under investigation (some cases carried forward from 15/16). In November 2016, the team commenced a more robust RTB application

			validation process whereby anti money laundering checks are deployed on all applications at the stage when the purchaser engages with HB Public Law. The purpose of this check is to determine the source of funds being used to purchase the Council property and to rule out money laundering. 1 case has been referred to Leasehold Services with a recommendation to reject the application due to suspicions of money laundering following the implementation of the improved system. The team has also engaged with the National Crime Agency (NCA) on this. Counsel advice has been commissioned and is due back in to the authority imminently. **Housing Datamatch** The team commissioned a bulk datamatch of tenancy records against credit bureau data which is included as part of the membership of the housing hub. The matches were returned in Q2 and were as follows:- • Total records matched 4794 • Red 48 matches (32 matches cleared with information already known to the authority mainly around deceased tenants) • Amber matches 170 (to be risk assessed and processed accordingly) • Green matches 4576 (no issue) At the time the datamatch was commissioned, the team had capacity to deal with the returned matches, but referrals and complexity of work increased throughout Q2 and Q3 which has resulted in this work slipping. It is envisaged that greater focus will be placed on this work in Q4. **Gas Warrants** CAFT accompany Housing Resident Services on all gas servicing entry warrants with a view to establishing possible leads for the tenant whereabouts and reasons for not responding to the letters requesting access to undertake this work. Repossession of 2 properties have been achieved through this work stream where the properties have been abandoned. **Housing Fraud Hub** The authority continues its membership of the hub and submits data on a monthly basis for matching in London.

			PoSHFA 2013 Powers The authority has utilised powers contained within the above act through requests to the National Anti Fraud Network (NAFN) on 14 occasions this year. If approved by NAFN, this enables the authority to access personal financial data on the tenant held by the banks on cases where it appears they have either sublet the property or are not residing as their principle home. **Overall fraud savings attributed to this work stream is approximately £531,800**
9	**Internal fraud & corruption**	Assess and investigate allegations of internal fraud and corruption in a timely manner.	**Objective On Target** To date this year 2 employees (1 agency and permanent) have been dismissed as a result of fraud and corruption undertaken. This has generated savings of £85,000 (combined annual salaries for 1 year). 1 employee was apprehended misusing a blue badge on the Civic Centre and the other employee was working undeclared for another Local Authority in London as a self employed contractor and claiming to be working in both authorities at the same time. The team has received 7 internal fraud referrals this year and currently has 10 live investigations (a number of cases carried forward). Of the 10 live investigations:- • 4 cases under active investigation • 2 cases with management for a criminal sanction decision (both employees have been dismissed) • 2 cases are with the police following arrest (1 employee dismissed and 1 currently suspended) • 1 case with HB Public Law for advice on criminal sanction (already dismissed) • 1 case subject to management investigation/disciplinary action following suspension In relation of one of the cases involving the police, this case has consumed a great deal of time and resource of the team in Q3 as it has appeared organised in its nature and impacted multiple claims for housing benefit. This investigation is being undertaken in tandem with the police and it is envisaged to run well into 2017-18 and possibly beyond given its complexity.

			Overall fraud savings attributed to this work stream is approximately £68,000
10	**No Recourse to Public Funds (NFPF) fraud**	Work in partnership with the People Directorate to explore the area of *No Recourse to Pubic Funds* (NRPF) recently highlighted in Protecting the English Public Purse 2015, in undertaking targeted application validation and make recommendations to better manage fraud risks	**Objective On Target** The team has 3 live NRPF investigations, where 2 are suspected to be linked to identity fraud. These investigations are complex because the applicants have dependant children so there is a duty on behalf of the authority to support and safeguard them under Section 17 of the Children's Act. The cost of these three cases alone to the authority in terms of housing and subsistence funding is around £150,000 per annum. If evidenced is uncovered of identity fraud then a decision will be taken on prosecution of the applicant. The team continue to liaise with the NRPF Team and Immigration on all cases to ensure that the gateway to services is robust and to ensure that fraud is identified and dealt with appropriately.
11	**Revenues fraud**	Work in partnership with Revenues and Benefits to Investigate allegations of fraud and abuse of the Council Tax, Council Tax Support and Non Domestic Rates Systems, including exemptions, discounts, and reliefs and apply appropriate sanctions where fraud is proven	**Objective On Target** The team has 2 live investigations into Council Tax Single Persons Discount (SPD) where the individuals have repeatedly claimed the discount by completion of a form, yet there is a doubt surrounding the veracity of the application. The team has received 3 referrals in total. The team has received 19 referrals and has 20 live CTRS cases of which 9 are with management for a sanction decision 1 case has resulted in the applicant being issued with a £1000 penalty which has been paid in full in addition to the fully repaid CTRS of £3533.50. • 3 cases are unallocated • 6 cases under investigation • 1 caution appointment is fixed • 1 case awaiting a visit **Overall fraud savings attributed to this work stream is approximately £4533.50**

12	**Blue badge fraud**	Working in partnership with Concessionary Fares and Parking Enforcement to investigate allegations of fraud and abuse of the disabled badge scheme by taking part in the Council Secure Streets Days of Action schedule on a risk basis.	**Objective On Target** The team have carried out 1 on street enforcement operation which resulted in an employee being challenged for misuse. They have subsequently been dismissed (agency staff member) and a decision on criminal sanction yet to be determined. 1 further caution has been administered which was for an employee dismissed in 2015/16 (agency staff member). The team has received 27 referrals to date this year. Of the 30 live cases, 11 are with management for a criminal sanction decision. **Overall fraud savings attributed to this work stream is approximately £700**
13	**Social care fraud**	Work in partnership with the People Directorate to explore social care fraud and abuse by ensuring that funding is spent according to care plans and make recommendations to better manage fraud risks	**Objective On Target** The team have 18 live investigations into social care payments of which 15 are in relation to direct payments. The team has received 7 referrals this year, a number of cases were carried forward. The team obtained evidence in relation to a disabled facility (DFG) grant application that resulted in the application being rejected due to inconsistencies with the applicants builder and cost of the works undertaken. This resulted in a savings of £26,0000. **Overall savings attributed to this work stream is £26,000**
14	**Partnership working**	Responding to requests for information in a timely manner from our law enforcement partners e.g. Police, Other LA's etc.	**Objective On Target** The team continues to respond to requests for information from law enforcement agencies and to offer support to their investigations. There are a number of live investigations that are being undertaken jointly with both Immigration and the Metropolitan Police.

15	**Risk assess fraud referrals**	Assess and investigate allegations of fraud and corruption on a risk basis in a timely manner	**Objective Ongoing** The team has received 173 fraud referrals in Q1 – Q3. See table 1 for referral type breakdown. There has been some bedding in issues with the new fraud system that was implemented in Q2 therefore some reconciliation work is required on exact numbers. For Q1 and Q2 there was a backlog of fraud referrals and the associated fraud referral risk assessment process as the team struggled to absorb this work which was previously undertaken by the 1 FTE post which was deleted in April 16 as part of the MTFS In November 2016, the team simplified the risk assessment matrix for deciding whether to invest resources in an allegation or not. The result of the review has meant that greater emphasis has been placed on higher risk and higher value fraud and that which could potentially impact greater in terms of finance and reputational damage. By the end of Q3 the fraud referral backlog had been cleared. Lower value fraud allegations will be pushed back to the service areas with recommendations from the team to review. In Q4 the team will start the sharing of a resource with Internal Audit to assist the team process the incoming referrals, to deal with requests for information from external law enforcement agencies and to build intelligence on cases.

Appendix 3 Fraud Referrals, Outcomes & Savings Summary 2016/17

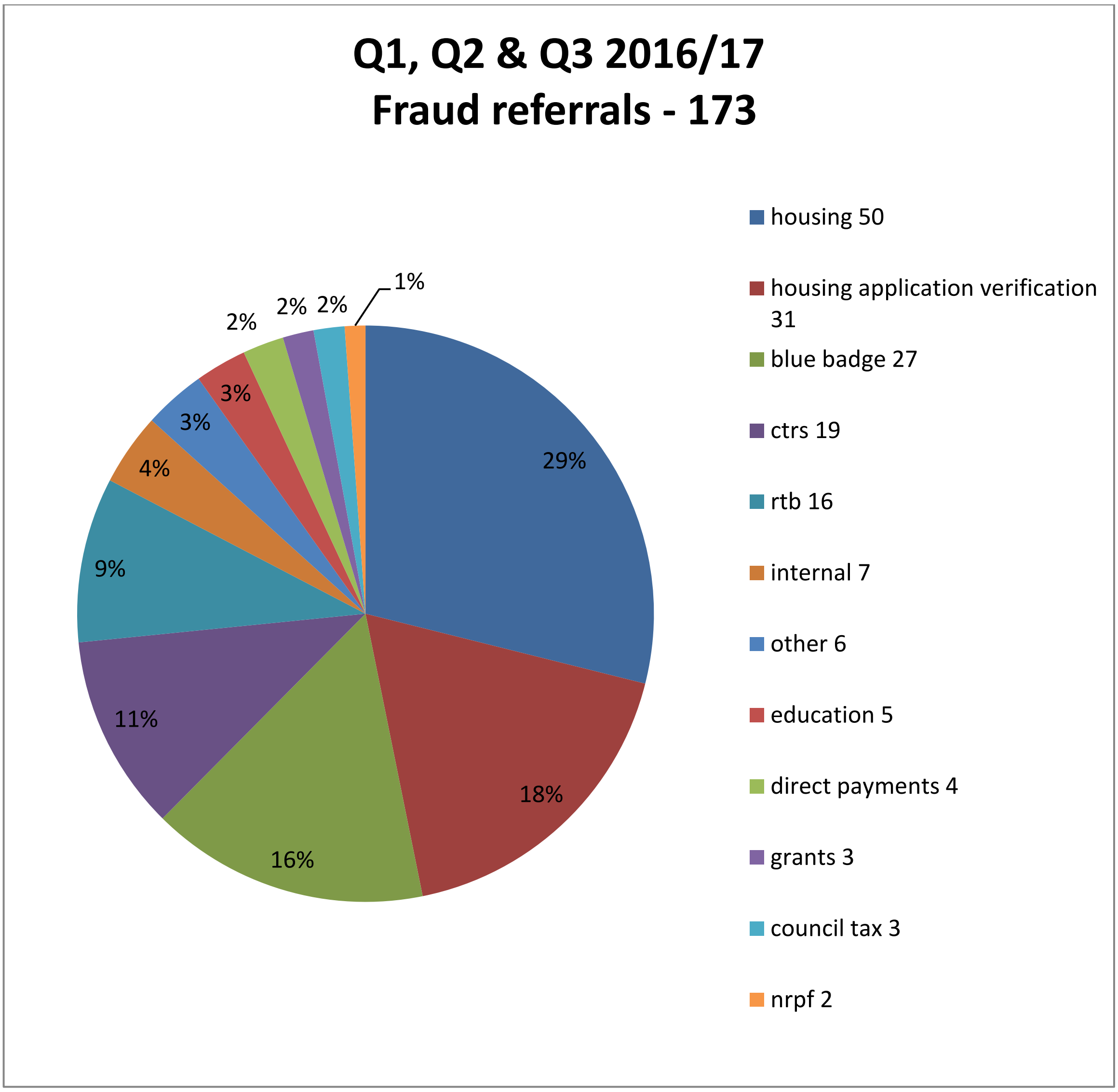
	2016/17 Q1	2016/17 Q2	2016/17 Q3
Housing application fraud Referrals Positive outcomes Savings	 5 1 £54,000 (2 bed prevented)	 15 1 £27,000 (1 bed prevented)	 11
Blue badge Referrals Positive outcomes Savings	 3	 18 1 (caution) £500 saving + £200 costs recovered	 6
Fraud other Referrals Positive outcomes Savings		 2	 4
No Recourse to Public Funds Referrals Positive outcomes Savings	 2		
Revenues/CT/CTRS Referrals Positive outcomes Savings	 1	 15	 6 1 (penalty) £1,000 income plus £3533.50 overpaid CTRS fully recovered
Education Referrals Positive outcomes Savings	 5		
Internal Referrals Positive outcomes Savings	 1	 2 1 £33,000 (employee dismissed)	 4 1 £35,000 (employee dismissed)
Right to Buy Referrals Positive outcomes Savings	 1	 4 2 £207,800 RTB's prevented	 11

Social care/grants/direct payments Referrals Positive outcomes Savings		3 1 £26,000 (DFG grant rejected	4
Tenancy Referrals Positive outcomes Savings	10 2 £81,000 (1 bed & 2 bed recovered)	18 3 £81,000 (3 x 1 bed recovered)	22 2 £81,000 (1 bed & 2 bed recovered)
Total Referrals Positive outcomes Savings	**Q1** **28** **3** **£135,000**	**Q2** **77** **9** **£375,500**	**Q3** **68** **4** **£120,500**

Mid Year Financial Summary

The level of fraud and corruption identified to date (Q1 – Q3) amounts to £631,000 which represents an approximate return on investment for the team of 3:1.

Fraud referrals by type Q1 - Q3 2016-17



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REPORT FOR: **GOVERNANCE, AUDIT, RISK MANAGEMENT & STANDARDS COMMITTEE**

Date of Meeting:	31 January 2017
Subject:	**INFORMATION REPORT - Risk Management Strategy & Policy (2016/17- 2019/20)**
Responsible Officer:	Tom Whiting, Corporate Director Resources and Commercial
Exempt:	No
Enclosures:	Appendix 1- Draft Risk Management Strategy & Policy (2016/17-19/20)

Section 1 – Summary

This report sets out the Council's draft Risk Management Strategy & Policy 2016/17-19/20 to assist the Committee in monitoring progress on risk management in accordance with its Terms of Reference.

FOR INFORMATION

Harrow COUNCIL LONDON

Section 2 - Background

Risk Management Strategy & Policy (Appendix 1)

2.1 The Council's Risk Management Strategy and Policy has been reviewed and updated to set out the organisational arrangements the Council has in place for the management of risk over the period 2016/17 -2019/20 and includes its Risk Appetite Statement. It has been reviewed and updated in pursuant to the principles of good corporate governance and in compliance with Statutory Instrument 2015 No. 234 for Local Government, England & Wales: the Accounts and Audit Regulations 2015 Part 2: Responsibility for Internal Control, whereby a relevant authority (local authority) must ensure that it has a sound system of internal control that:-

a) facilitates the effective exercise of its functions and the achievement of its aims and objectives.

b) ensures that the financial and operational management of the authority is effective; and

c) includes effective arrangements for the management of risk.

2.2 Consultation has been undertaken and the draft agreed with the Chief Executive, Corporate Directors, Section 151 Officer, Monitoring Officer (individually and as part of CSB) and the Portfolio Holder (Finance and Commercialisation). The draft will also be agreed with the Leader of the Council before it is taken to Cabinet for approval.

Section 3 – Further Information

3.1 The Risk Management Strategy & Policy will be reviewed and updated annually and presented to the Committee if any significant changes are proposed.

Section 4 – Financial Implications

4.1 Any financial implications have been addressed, where relevant, in the main body of the report.

Section 5 – Corporate Priorities

5.1 The Risk Management Strategy and Policy recognises and covers all corporate priorities and these are reflected in the above Risk Management Strategy and Policy document and also the wider risk management process were appropriate.

Name: Dawn Calvert	✓	Chief Financial Officer
Date: 19/01/17		

Section 7 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit, 0208 424 1420, susan.dixson@harrow.gov.uk

Background papers: None

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HarrowCOUNCIL
London

APPENDIX 1

RISK MANAGEMENT STRATEGY & POLICY

(2016/17- 2019/20)

Version 04: Draft
Date: 04.01.17

1

Document Control

Document Information

Reference	London Borough of Harrow Risk Management Strategy & Policy (FY 16/17-19/20)
Location	Civic 1
Owner	Susan Dixson – Head of Internal Audit
Author:	Neale Burns - Interim Risk Manager

History of Changes

Version	Date	Incorporates Changes By:
0.1	21.10.16	Neale Burns, Interim Risk Manager
0.2	14.11.16	Susan Dixson – Head of Internal Audit
0.3	30.11.16	Corporate Strategic Board
0.4	31.01.17	Governance Audit and Risk Management Standards Committee
0.5		Cabinet

Distribution

Name	Role	v0.1	v0.2	v0.3	v0.4	v0.5
Interim Risk Manager [Draft]	Production of the draft Risk Management Strategy document outlining the Council's risk management arrangements and framework	●				
Head of Internal Audit [Draft]	Responsible for the management of Internal Audit & Corporate Anti-Fraud Fraud Section. Responsible for ensuring that the Council, directorates, services and staff comply and are supported and also challenged in the development and implementation of the Council's risk management strategy and framework.	●	●			
Corporate Strategic Board [Draft]	Considers the key finance and performance standing of the Council, including corporate risks, and endorses Cabinet papers.	●	●	●		
Governance, Audit and Risk Management Committee Standards (GARMS) [Draft]	Responsible for reviewing the efficacy of internal policies and arrangements, including the risk management strategy.					
Cabinet [Final]	Responsible for the preparation/agreement and finalisation of other policies and plans for making key decisions, including risk management.					

CONTENTS

1. INTRODUCTION

1.1 This Risk Management Strategy and Policy for Financial Years (FY 2016/17-19/20) is drawn up pursuant to the principles of good corporate governance and in compliance with Statutory Instrument 2015 No. 234 for Local Government, England & Wales: the Accounts and Audit Regulations 2015 Part 2: Responsibility for Internal Control, wherein a relevant authority (local authority) must ensure that it has a sound system of internal control that:-

i). facilitates the effective exercise of its functions and the achievement of its aims and objectives.

ii). ensures that the financial and operational management of the authority is effective; and

iii). includes effective arrangements for the management of risk.

1.2 Risk is classically still the uncertainty of an event occurring, which could be a negative threat, or a positive opportunity, that could have an impact on the achievement of the Council's key objectives. Risk is therefore the "effect of uncertainty on objectives"(BS ISO 31000:2009 Risk Management – Principles and Guidelines). Risk Management is "the process of understanding and managing the risks that an organisation is inevitably subject to in attempting to achieve its corporate objectives" (Chartered Institute of Management Accountancy Official Terminology) and is the process whereby the Council methodically addresses those risks or barriers to achieving its vision and corporate and directorate objectives. Risk arises from possible threats to objectives as well as failure to take advantage of possible opportunities. Only those risks that impact on the achievement of objectives should be captured in risk registers.

1.3 Risk can also be operational in nature and exist at service or team level within an organisation, such as disaster recovery risks, health and safety risks or in risks relating to the care and protection of vulnerable clients, but are likewise to be seen as barriers to achieving operational outcomes and objectives. Unless effectively managed, such risks can escalate in their nature and impact to become much more significant and strategic in their impact.

1.4 Harrow Council provides a range of services that improve the quality of life for communities, businesses, individuals and vulnerable people. Harrow like all UK councils is experiencing immense budgetary pressures and reductions. In total these reductions will amount to approx. £54M between now and 2018. It is responding with vigour to these challenges with the Harrow Ambition Plan 2020 and by working to achieve the aspirations of the Borough and to deliver on its vision of 'Working Together to Make a Difference for the Vulnerable, Communities, Families and Businesses'. Between now and 2020 the Council will:-

- Build a Better Harrow;
- Protect the Most Vulnerable; and
- Be More Business Like.

1.5 The Council has refreshed the vision, values and qualities it hopes and expects its staff to exhibit to enable it to make the changes to the culture and community of the Borough to achieve it's objectives while continuing to make the savings required by central government. These new values are:

- Be Courageous
- Do It Together
- Make It Happen

1.6 The Council is asking its staff to look to the future and to step forward to be bold and creative, to co-operate with each other and also with other organisational partners to overcome barriers and adversity and to promote the interests of the Council and the action that will build a Better Harrow.

1.7 The Council's priority of being more business-like will also ensure that its ambition and enthusiasm are tempered with realism. In addition to continuing to drive cost-cutting and efficiency projects at the Council, it will also in more positive terms draw out and exploit the business synergies and market opportunities that exist between a public and a private sector organisation to ensure the Council can make a real and competitive offer to the community and can invest in and support a thriving, modern, inclusive and vibrant London borough that is for the collective benefit of all.

1.8 As the Council can no longer rely on the level of central government funding received in previous years, it will thus become more commercial with the growth of new business ventures in the private sector. Commercial initiatives are in the main being progressed during 2016-17 and beyond as part of the Council's Project Infinity and Project Phoenix programmes.

1.9 The Council will continue to grow and expand its portfolio of sharing services and joint working with other Councils where there are benefits and advantages to this, particularly in the areas of economies of scale and service-quality. It will therefore also continue to share and expanding services and joint working with other councils and public sector bodies and this also will occur during 2016-17 and beyond.

1.10 It will also undertake an ambitious £1.75bn regeneration programme to "Build a Better Harrow" creating thousands of much needed affordable and high-quality homes that will bring jobs and investment into the Borough as well as the generation of future income streams for the Council. It will continue to build new state-of-the-art schools and to create clearer greener neighbourhoods throughout the Borough.

1.11 The Council will also give the highest priority to creating a flourishing and contemporary arts life in the Borough and will endeavour to bring to the table a vibrant and significant new arts, culture, leisure and entertainment offering for residents.

1.12 By 2020 Harrow Council additionally will move into a new Civic Centre in Wealdstone designed in consultation with residents for residents and which will be at the heart of their community.

1.13 Many of these actions and initiatives are significant and landmark projects and will inevitably mean the Council corporately taking on and carrying more significant risk, particularly commercial risk, than it has in previous years. These actions are determined and undertaken by the Council so as to access a commensurate increased financial and social return and reward for both the Council and its residents.

1.14 Where increased business or financial risks could arise in the UK economy over the coming years as a result of the UK's decision to leave the European Union, and be they negative threat risks and/or more positive opportunity benefits, the Council has recognised these possible scenarios and has in place a range of financial contingencies and strategic investment options to adjust to and mitigate downwards any significant risk arising so as to safeguard the achievement of its strategic objectives. These include capital investment real options in the Regeneration Programme and a range of financial contingencies, reserves and allowances in-built in the Council's medium term financial strategy.

1.15 In support of the Council's corporate strategy has been the risk management strategy which has evolved to help drive Harrow forward in the knowledge that the key risks it now faces in implementing the strategy, particularly in delivering as an organisation transformational change rather than incremental change, are being effectively identified, assessed and managed.

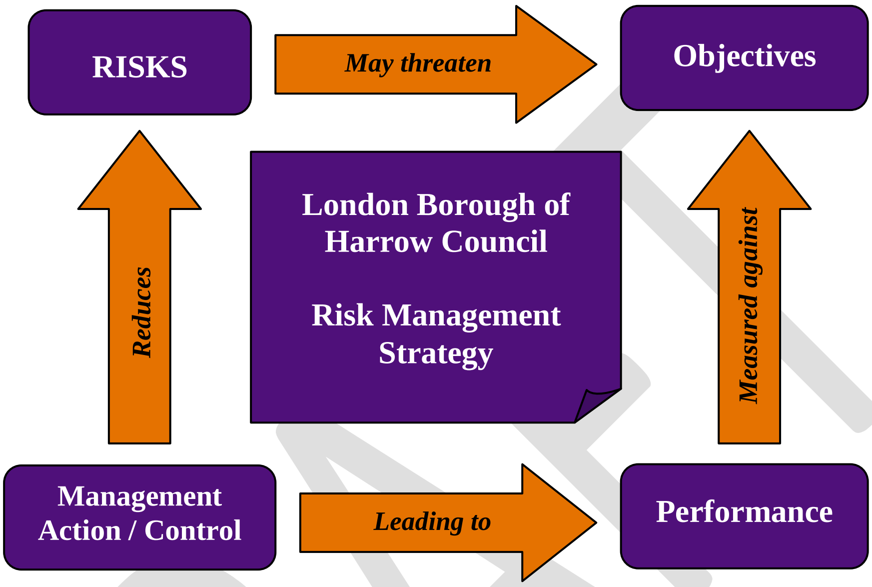
1.16 Effective risk management is also a keystone of effective corporate governance and the maintenance of a strong control environment. It is at its most effective as an integral part of the Council's key business processes, particularly its business planning, budgeting and performance management processes. Risk management is the process whereby the Council identifies and controls the level of risk attached to its business and service activities that could impact upon the achievement of our objectives.

1.17 However, the aim of risk management is not to remove all risks, but to understand the nature of risks and to implement controlled, sensible, balanced and cost effective measures, to manage risk and achieve objectives within each activity and across the portfolio of all activities.

1.18 Risk management is not about being 'risk averse,' but about being 'risk aware' and this awareness will mean that the Council and its leadership team is better able to avoid threats and hazards and also take full advantage of opportunities that arise in the course of its business.

1.19 The relationship between risk management and objectives is shown in Diagram 1 below:-

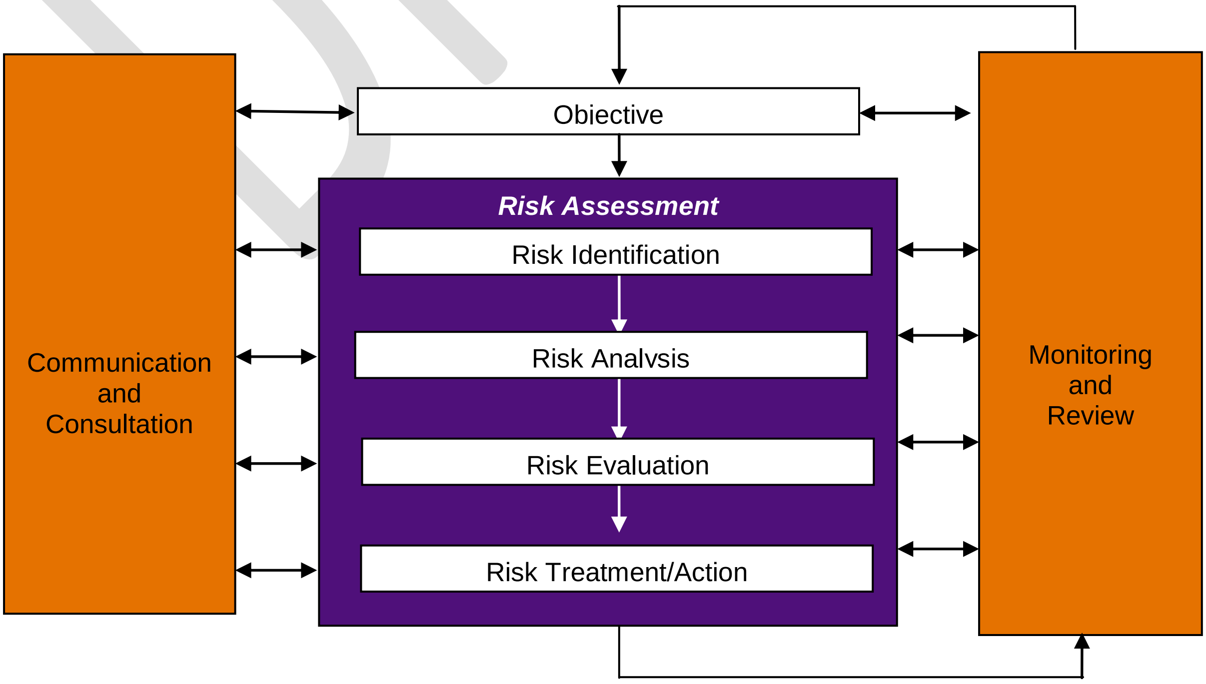
Diagram 1: Risk and Objectives



2. THE RISK MANAGEMENT PROCESS

2.1 The risk management process underlying this relationship with objectives is shown in Diagram 2 below:-

Diagram 2: The Risk Management Process



2.2 This process ensures that risks are constantly identified evaluated, monitored and managed as part of a continuous cycle within the lifetime of the associated activity(s) being undertaken.

2.3 As mentioned above, risk can also exist at more operational levels as part of the Council's day to day activities and also programmes and project management. At Harrow, and similar to the strategic level, this has already been embedded and integrated into the culture of the Council, with responsibility assigned to managers and staff responsible for the management of risk as part of their individual job profile and performance objectives.

2.4 It is also important to note that risk management is a tool whose benefits and use can extend beyond managing risk directly via the operation of risk registers and which can also be used to support managers in decision-making in other activities, such as the basis for allocating their limited resources, designing business processes, evaluating opportunities and for choosing and prioritising what areas of performance are monitored and the level of that monitoring. All directorates and services within the Council are contingent and frequently may not carry the same risk profile and priorities for their focus and action in risk terms. In seeking to take action, manage and mitigate its risks the Council will have recourse to a number of broad control strategies available to manage those risks. These include:-

- ***Tolerate***: The exposure may be tolerable without any further action being taken. Even if it is not tolerable, ability to do anything about some risks may be limited, or the cost of taking any action may be disproportionate to the potential benefit gained. In these cases the response may be to tolerate the existing level of risk. This option, of course, may be supplemented by contingency planning for handling the impacts that will arise if the risk is realised.
- ***Treat***: By far the greater number of risks will be addressed in this way. The purpose of treatment is that whilst continuing within the organisation with the activity giving rise to the risk, action (control) is taken constrain the risk to an acceptable level.
- **T*ransfer***: For some risks the best response may be to transfer them. This might be done by conventional insurance, or paying a third party to take the risk in another way. If a risk is transferred, accountability for the management of the risk remains with the Council.
- ***Terminate***: Some risks will only be treatable, or containable to acceptable levels, by terminating the activity. This option can be particularly important in project management if it becomes clear that the projected cost / benefit relationship is in jeopardy.
- ***Take the Risk*** This option is not an alternative to those above; rather it is an option that should be considered whenever tolerating, transferring or treating a risk. There are two aspects to this. The first is whether or not at the same time as mitigating risk, an opportunity arises to exploit positive impact. The second is whether circumstances arise, which, whilst not generating threats, offer positive opportunities.

3. RISK MANAGEMENT OBJECTIVES

3.1 The objectives set for the risk management strategy are to: -

- Continuously develop the Council's embedded risk management framework to support the achievement of the Harrow Ambition Plan 2020 and the Council's vision of "Building a Better Harrow" and Working Together to Make a Difference for the Vulnerable, Communities, Families and Businesses
- Promote risk-awareness, particularly business risk awareness, risk-intelligence and risk management throughout the Council
- Successfully manage the risks associated with the economic and financial short, medium and long-run
- Ensure programme and project risk is managed effectively
- Support the effective identification and management of the risks associated with organisational and commercial partnerships, joint ventures, mergers and acquisitions
- Enable risk to be managed to achieve target financial returns or better for the Council

- Support the effective identification and management of risks associated with delivering existing and new council services into existing and new markets
- Capture, expand and act upon positive risk opportunities
- Proactively identify and manage emergent and contingent risk
- Clearly state and communicate to all council officers, managers, partners and residents their risk management responsibilities
- Ensure where appropriate risks are effectively escalated and escalation is timely
- Ensure risk management processes are engaging and relevant to all staff
- Manage risk in line with sector best practice in corporate governance

3.2 This risk management strategy draws on recognised best practice guidance in risk management in the public sector, Institute of Risk Management (IRM), HM Treasury, CIMA, COSO and CIPFA guidance and is supplemented by the Risk Management Guide, available on the intranet which provides further detailed guidance on the Council's risk management processes.

4. RISK MANAGEMENT ROLES AND RESPONSIBILITIES

4.1 Although the corporate risk management framework is set and regularly monitored by Cabinet (who have ultimate responsibility for it) and the Council's Strategic Board (CSB) (working in conjunction with the Internal Audit & Corporate Anti-Fraud section) core delivery of the approved risk management framework is primarily led by and rests with corporate directors, acting individually and collectively in CSB, and who are then supported by their directorate management teams or equivalent. The Internal Audit and Corporate Anti-Fraud section will work in collaboration with corporate directors further to this offering professional advice and challenge and will work in reporting and monitoring terms to this protocol.

4.2 Furthermore, all Members, managers and staff of the Council, including when acting in partnership and joint venture with other bodies and organisations, have a general responsibility and duty to manage risk as an integral part of their role.

4.3 In addition, specific core risk-related/risk-driven support service activities, such as health and safety, insurance, emergency business continuity planning, performance management and project management in addition all contribute to the overall corporate risk management process.

4.4 A summary overview of responsibilities for risk management at the Council is attached at Annex A with a more detailed breakdown of these responsibilities is attached at Annex B.

4.5 Whilst the management of risk at different management levels within the Council will vary in terms of focus and level of formal analysis, in order to ensure further to good practice "that a common language is spoken on risk across the organisation" (Turnbull Report 2005 and subsequent Financial Reporting Council [FRC] Guidance 2014), it is important that consistency and clarity of risk information is achieved on risk registers.

4.6 For this reason, the mandatory adoption of a standard risk register format or where appropriate a risk action plan is required. The standard risk register template, which covers both the corporate and directorate risk registers, is provided in the Risk Management Guide available on the intranet and is also attached at Annex D.

4.7 Managers, project managers and partners, whilst retaining the 'core' information, may adapt the standard risk register (for example adding additional fields such as risk category and/or proximity, etc), where justified by business or project need. However, more substantive revision to the standard risk register format must be referred to the Council's Head of Internal Audit within the Resources directorate, who will advise on the proposed changes and how they fit within the Council's overall risk framework.

5. RISK APPETITE AND DELEGATED RISK APPETITE

5.1 The amount of risk at the strategic level the Council's and its leadership team is willing to take on, accept, tolerate or be exposed to in the pursuit of its business objectives, is generally referred to as its risk appetite.

5.2 The amount of risk that the Council is willing for the partnership, programme, operational and project level to tolerate is known as the delegated risk appetite.

5.4 Risk appetite and delegated risk appetite is expressed in terms of boundaries, which give clear guidance at each level (eg. strategic, programme, operational and project) on the amount of risk exposure officers can take before action is necessary.

5.4 The Council maintains an effective control framework designed to manage risks. Any risks that are an unacceptable exposure to the Council are mitigated as far as possible. Where a proposed activity or venture has a residual risk that is considered unacceptable and there is no means of reducing the risk to an acceptable level the activity may be rejected. However there may be occasions where there is a statutory obligation to undertake the activity despite the risk exposure. There will also be occasions where, in entrepreneurial terms, it will be appropriate to take measured levels of risk, in furtherance of the Council's business and service objectives. Where it is feasible and cost effective to do so, the financial impact of risks may be minimised by insurance or other third party indemnities.

5.6 Whilst risk appetite and related processes will be formally reviewed on an annual basis, risk appetite is not static and can be adjusted at any time by the Cabinet with supporting advice from the Corporate Strategic Board (CSB).

5.7 In deciding the risk appetite and delegated risk appetite, Cabinet considers:

- Environmental and wider macro-economic factors, including central government legislation and any required reductions in spending and other efficiencies in services
- The amount of risk that is acceptable (what risk could be justified if it actually happened)
- The Council's funding levels and its overall capacity to bear risk.
- The areas/directorates within the Council that have an expertise and skill-set for taking risk
- The extent and prevalence of operational and commercial opportunities capable of being exploited by the council

6. RISK ESCALATION AND REPORTING POLICY

Risk Escalation

6.1 A key element to effective risk management is on-going vigilance and the communication and escalation of risk information to the appropriate management level. The framework for the reporting and escalation of risk within the Council and its public sector and private sector partners is based on the organisational structure and normal reporting lines and which also recognises the increased role of Harrow's residents and the Council's commercial partners. Programmes and projects can ensure communication by reporting and escalating risks to their respective Boards/Committees through the appropriate channels.

6.2 Risk escalation is based on the following key principles:

- ***Escalation needs to be managed***. It is not sufficient to simply escalate a risk to the next management level. It is important that when a risk is escalated, it is reassessed as to its impact on the achievement of objectives at that next level.
- ***All Directors, managers, staff and residents are empowered to escalate.*** Importantly escalation should not be seen as a failure. Escalation is a tool to ensure that risks that cannot

be resolved at one level are relayed to the next level to ensure that every effort is made to mitigate the risk.

- ***Escalation needs to be timely.*** It is important that risks are escalated early and in good time to affect a resolution.
- ***Escalation should be documented***. It is important that all risks are recorded, where appropriate, in risk registers or risk action plans. Any verbal escalation should be followed up with written or email documentation detailing the risk and retained.

6.2 It is to be noted that notwithstanding these arrangements, and in conjunction and liaison with the Head of Internal Audit and the Director of Resources~~,~~ that any significant or serious risk, or risk-related issue, demanding immediate attention or action, can be “flash reported” to relevant and responsible officers of the Council, including the Head of Internal Audit and the Director of Resources above.

6.4 Once escalated, the next management level becomes alerted to the risk, reassesses the risk as to its impact on the achievement of objectives at that next level and takes appropriate action. This may mean:

- managing the risk directly
- changing the activity; or
- adjusting the level of risk they judge suitable for the level below to manage
- accept the risk

6.5 When escalating risk, the impact may be lower, due to the wider range of priorities and high level objectives considered. Alternately, the risk may be incorporated into an existing risk if it is related to that risk, or the controls in place to treat the risk would also mitigate / treat the escalated risk. Risk escalation is thus an important tool for ensuring that risks are known and understood by the council officers with the authority to appropriately manage them.

6.6 Escalating risk does not always delegate the management of risk upwards. Risks can sometimes be de-escalated if management feel there are appropriate resources to mitigate the risk at the lower level. Generally, this follows discussion and agreement between Managers/Directors in relation to the appropriate level of decision making to manage the risk. The escalation and de-escalation of risk involves discussion and agreement between Managers/Directors in relation to the appropriate level of decision making to manage the risk.

6.7 Further detailed guidance for officers on assessing and evaluating risks can be found in the Risk Management Guide available on the intranet.

Risk Reporting

6.7 On a quarterly basis each corporate director, or duly delegated officer, updates any corporate risks owned by them, or their directorate, which are stated on the corporate risk register, including newly emergent risks.

6.8 Normally, only the corporate risk register, containing only corporate risks, is reported to CSB. However, any corporate director can request that any other risk, eg corporate, directorate, project or partnership risk, or any risk matter, or risk analyses, can be discussed or asked for in a CSB context.

6.9 In seeking to designate a risk corporate in nature, and therefore to be monitored and reported to CSB for action, officers should consider a number of factors. For example:-

- Is the risk concerned corporate and cross-cutting in nature (ie a strategic risk)
- Is the risk concerned a business-critical risk fully justified in business planning, budgetary process and service delivery terms
- If a directorate risk, is it otherwise sufficiently serious to be discussed at CSB level

- Is it appropriate for the risk, or would it require, or benefit from, being discussed in the collective forum of CSB, eg CSB agreed and collective action is necessary for any mitigation.
- Is the risk free standing or should it be allied or aggregated into an existing risk?
- Does the risk increase the significance and threat of other risks or otherwise significantly or disproportionately increase the cumulative level of risk being taken by the Council
- Is the risk an emerging corporate risk (ie a new risk not yet captured in the corporate risk register) in the above terms

6.10 It is important to ensure that the number of risks being discussed at CSB is sufficiently few (but critical in risk terms) to avoid information overload on risk and to ensure CSB discussion and action is sufficiently strategic and targeted where it is most needed.

6.11 It is expected also that at directorate level, the directorate risk register, with an emphasis on red risks, will be reported quarterly and monitored for action by the directorate DMT, or equivalent, and this will often be in the forum of Improvement Board meetings and reporting.

6.12 In addition wherever possible CSB should appropriately consider and seek to exploit positive risk opportunities as well as identifying and managing negative threat risks to the Council.

6.13 Directorates should also seek to apply the same principles outlined above but in directorate terms, so that the following factors are considered in designating a risk directorate in nature:-

- Is the risk concerned a business-critical risk to the directorate fully justified in business planning, budgetary process and service delivery terms
- Are positive risk opportunities of benefit to the Council being appropriately identified and exploited by the directorate
- If a divisional or service risk, is it sufficiently significant to be discussed at DMT level
- If a divisional or service risk, does it require, or would it benefit from, being discussed in the collective forum of DMT, eg DMT agreed and collective action is necessary for any mitigation.
- Is the risk free standing or should it be allied or aggregated into an existing risk?
- Does the risk increase the significance and threat of other risks or otherwise significantly or disproportionately increase the cumulative level of risk being taken by the Council
- Is the risk an emerging directorate risk (ie a new risk not yet captured in the directorate risk register) in the above terms

6.14 Likewise it is important to ensure that the number of risks being reported to DMT is sufficiently few (but critical in risk terms) to avoid information overload on risk and to ensure DMT discussion and action is sufficiently strategic and is targeted where it is most needed.

6.15 This principle should also be extended to reporting risks within a programme/project framework, including on the VERTO system, by reference to how critical/key it is to the achievement of project outcomes and objectives. Guidance on project risk management is provided on the Council intranet at http://harrowhub/downloads/file/2319/project_management_toolkit.

6.16 It is expected that divisional directors will maintain divisional risk registers relating to their functions/services and that these are reviewed and updated at least on a quarterly basis. The maintenance of team/departmental risk registers on the same basis by service managers whilst good practice is optional.

6.17 As outlined above and in conjunction and liaison with the Head of Internal Audit and the Director of Resources~~,~~ that any significant or serious risk, or risk related issue, demanding immediate attention or action, can be “flash reported” to relevant and responsible officers of the Council including the Head of Internal Audit and the Director of Resources above.

6.18 In addition to the above, a range of meetings/forums involving deliberative groups are currently held within the Council that provide the opportunity for regular discussion of risks, including directorate, cross-cutting risks and risks with partners, including trading and commercial partners

6.19 Corporate directors, directors, divisional directors, service managers and programme/project managers and service and also public sector and commercial trading partners are therefore responsible for ensuring that processes are in place to provide opportunities to regularly discuss and capture those risks, cross cutting risks and risks with partners that impact upon objectives. At a minimum, risks should be discussed and formally documented on a quarterly basis.

7. CONTINGENCY PLANNING

7.1 Identified risks at the Council will as part of their management be subject to advance and proactive contingency planning. Contingency planning is the action that is foreseen to be taken if the risk, despite the best efforts of the Council to manage it, actually occurs and becomes an event or a live organisational issue to be managed.

7.2 In this way it is intended that the action then taken will be more effective and issue-focused because it has benefited from forward planning and analysis to minimise the impact of the risk. The provision for making contingency is recorded in the revised Standard Risk Template at Annex D.

8. RISK MANAGEMENT RESOURCE

8.1 Sufficient resources are devoted to risk management to ensure that it is organisationally effective and co-ordinated.

8.2 At Cabinet level the risk management process is supported and actively promoted by the Governance, Audit and Risk Committee (GARMS). The Corporate Director of Resources acts in support of GARMS by leading, promoting and embedding risk management corporately across the Council. The Head of Internal Audit is responsible for the management of Internal Audit & Corporate Anti-Fraud Fraud section and for ensuring that the Council, directorates, services and staff comply and are supported and also challenged in the development and implementation of the Council's risk management strategy and framework.

8.3 Other specialist risk-related disciplines such health and safety, insurance, emergency & business continuity planning and performance management all closely contribute to the council's risk management process.

9. OWNERSHIP AND RESPONSIBILITY FOR RISK MANAGEMENT

9.1 It is important that Risk Management is integrated into the culture of the Council and its partner organisations and is led and owned at executive member and senior management levels, with responsibility for the management of risk further delegated and assigned to individual council managers and staff (including managers and staff of the Council's service and commercial trading partners) as part of their individual job profile and performance objectives.

9.2 The Cabinet acting in conjunction with the GARMS committee is responsible for the agreement and approval of policies and plans relating to risk management and have ultimate responsibility for it.

9.3 The GARMS committee, further to good corporate governance practice, supports and advises the Cabinet by monitoring and annually reviewing the Council's risk management arrangements.

9.4 The Corporate Strategic Board (CSB), comprised of the Chief Executive and Corporate Directors, is responsible for considering the key finance and performance standing of the Council, including strategic, corporate, operational and partnering risks.

9.5 The Corporate Director of Resources has direct operational responsibility for the management of the corporate risk management function and provides expertise/specialist support and advice to the Council relating to corporate risk management and also its closely related activities, particularly the internal audit function, and also including health and safety, business continuity/emergency planning, corporate anti-fraud and information governance.

9.6 The Head of Internal Audit reports directly to the Corporate Director of Resources above and is responsible for ensuring that the Council, its trading companies, its commercial and public sector partnerships, its LBH-led shared services, its directorates, services and staff comply with the Council's risk management framework and are supported and engaged in the development, implementation and review of the risk management framework.

9.7 A full list of the formal and specific risk management roles and responsibilities are provided at Annex B. Notwithstanding this, all members, managers and staff at the Council (including managers and staff of the Council's service and commercial trading partners and its trading companies) have an indirect, if not a direct responsibility, to manage risk as an integral part of their role so as risk awareness and management is integral to the culture and behavior of the Council.

10. PERFORMANCE MANAGEMENT

10.1 The effectiveness of the risk management function is reviewed on an on-going basis by CSB and also as outlined above its effectiveness is annually appraised and evaluated by the GARMS committee, who also monitor and challenge activities and progress. The risk management function is also audited against public sector best practice by both internal and external audit.

11.2 The views of key stakeholders and internal customers in the risk management function, particularly corporate directors, divisional directors, heads of service, service-managers and staff are regularly sought. The risk management process will be continuously improved in line with this feedback.

11. RISK MANAGEMENT SUPPORT, GUIDANCE AND TRAINING

111 This strategy and policy's supporting risk management guidance, templates and tools are available on the Council's intranet.

11.2 Support on the content of this strategy and the risk management framework is available through the Head of Internal Audit. Contact details are available on the Council's intranet.

11.3 Specialist support and advice on risks around health & safety, information management, fraud, and business continuity/emergency planning, including the transfer of risk through insurance arrangements and risk-based audits/reviews is also available from the Corporate Director of Resources and Head of Internal Audit above.

12. REVIEW AND CONTROL

12.1 This strategy and policy will be subject to regular review (at least annually) by the Head of Internal Audit with any changes reflected in related guidance, training and tools as appropriate.

Summary Overview of Risk Management Responsibilities

RISK STRATEGY ACTIVITY / COUNCIL GROUP/TEAM/ OFFICER OR COMMERCIAL PARTNER	Develop the Corporate Risk Management Strategy	Agree the Corporate Risk Management Strategy	Provide Advice and Support on the Strategy	Implement the Strategy	Share experience of risk management issues	Review the effectiveness of the Strategy
Cabinet		●				●
GARMS			●		●	●
CSB	●			●	●	●
Corporate Directors	●			●	●	●
Section 151 Officer	●		●	●	●	
Monitoring Officer			●	●	●	
LBH Trading Companies				●	●	
Commercial Partners/Joint Ventures					●	
LBH Trading Companies and LLP Partnerships	●			●	●	●
Public Sector Partnerships					●	
Large LBH Procurement Contracts				●	●	
Shared Services (LBH Service-Lead)				●	●	
Shared Services (LBH Non-Leading)					●	
Directorate DMTs			●	●	●	●
Improvement Boards				●	●	
Programme & Project Boards				●	●	
Council Committees/Boards/Groups				●	●	
Heads of Service/Service Managers			●	●	●	●
Internal Audit	●		●	●	●	●
External Audit						●
Council Staff				●	●	
Harrow Residents					●	

(*Source of Model: CIPFA; Risk Management in the Public Services*)

Detailed Risk Management Responsibilities

Position	Role / Responsibilities
Cabinet	• Formally and annually approve the Council's Risk Management Strategy & Policy • Provide leadership on risk management in the organisation • Consider the strategic risks associated with the decisions taken. • Monitor the Council's risk management arrangements, including via the Council's strategic performance and audit reports. • Assess risks in Cabinet reports and provide challenge, where necessary.
CSB	• Develop, implement and review the Council's Risk Management Strategy & Policy • Seek assurance at least annually that all risks comprising barriers to achievement of the Council's strategic objectives [Harrow Ambition Plan 2020]] have been identified and accurately assessed and are being managed • Seek assurance at least annually that all directorates are appropriately complying with the Council's risk management policies and framework
Corporate Directors/Directors	• Take personal responsibility for managing risk, including both negative threat risks and positive entrepreneurial/opportunity risks • Manage the strategic risks associated with their directorates, including those crossing business, organisational, service or directorate boundaries • Escalate and report risks, as appropriate, quarterly for consideration and action by CSB and the Head of Internal Audit • Ensure that a formal risk assessment is conducted each year for their directorate (as part of the business and budget planning process) and any risks that impact upon the achievement of objectives are captured • As required, as a part of their delegated authority, manage the risks associated with their budget allocation and service plan • Seek assurance that a risk-aware culture is appropriately and thoroughly embedded in their directorate and all staff • Ensure arrangements are in place for partnership, procurement contract, shared services, and commercial partner activities so that where risks are shared risks are identified and captured and where appropriate joint/collaborative risk registers are in place and risks are regularly monitored and risk ownership allocated • Provide advice to directorates and the council corporately on key risks to the Directorate's objectives and for reporting to Improvement Boards • Review their Directorate risk register(s) each quarter • Comply with the Council's strategy, policies and framework on risk
Directorate Management Teams, or Equivalent	• Collectively support and contribute to their corporate discharge of their risk management responsibilities • Make arrangements for continuing to embed risk management and a risk aware culture throughout their respective directorates • Ensure risk is regularly reported (at least quarterly) to their Corporate Director and at Improvement Boards and also the Head of Internal Audit • Maintain and review directorate rate risk register(s) on a quarterly basis

Detailed Risk Management Responsibilities

Position	Role / Responsibilities
Heads of Service & Service Managers	• Accept responsibility for managing risk as a core managerial competency • Manage the risks associated with their area, including those crossing area boundaries within their Directorate and their delegated budget allocation and service plan responsibilities • Ensure a risk register is in place for any business or project related risks and the risk registers are reviewed at least quarterly • Compliance with risk policies and ensure staff are trained in risk management • Encourage staff to raise risks and send a message to staff that escalated risks will be evaluated and acted upon if necessary • Promptly advise senior managers of significant identified risks
Improvement Boards	• Review and discuss risk exception reporting • Discuss and review Directorate risk register(s), as necessary • Where appropriate, escalate risks for discussion and consideration by CSB or the Head of Internal for inclusion on Corporate Risk Register.
Programme and Project Boards	• Review and update risk registers/action plans. • Escalate any risks that exceed the delegated risk appetite to the next level or to the Head of Internal Audit • Provide a copy of the updated risk register/action plan to the Head of Internal Audit
Other Council Boards, Panels, Steering Groups & Committees	• Produce a written Terms of Reference which requires risks to achieving Board/Committee/Panel/Group objectives, or opportunities to accelerating or enhancing achievement, to be identified, assessed, managed and reported by the Board/Committee/Panel/Group
GARMS	• Promote, support and co-ordinate risk management at Member level ensuring a positive and cogent attitude toward the understanding and treatment of risk at the Council • Monitor, advise and review at least annually the effectiveness of the Council's overall risk management framework and arrangements prior to submission to Cabinet and review the Council's key of risks to ensure these are being adequately managed
Public Sector Partners	• Ensure that appropriate arrangements are in place to manage partnership related risks including risk escalation procedures • Actively manage risks within the partnership participating in the regular update and maintenance of a joint partnership risk register. • Report on risk management issues to the respective partnership board. • Show a clear link between objectives and outcomes that is customer focused.

Detailed Risk Management Responsibilities

Position	Role / Responsibilities
Commercial & Private Sector Partners	• Ensure that appropriate arrangements are in place to manage commercial partnership related risks including risk escalation procedures to relevant Board and/or DMT/CSB • Actively manage risks within the commercial partnership and participating in the regular update and maintenance of a joint commercial partnership risk register. • Report on risk management issues to the respective partnership board. • Show a clear link between objectives and outcomes that is customer focused.
Council Trading Companies & LLP Partnerships	• Develop, implement and review the trading company's or partnership's risk management strategy • Seek assurance at least annually that all risks comprising barriers to the achievement of the strategic objectives of the company or LLP Partnership have been identified and accurately assessed and are being managed • Seek assurance at least annually that all divisions and departments within the company or LLP Partnership are appropriately complying with the company or partnership's risk management policies and framework • Ensure adequate risk escalation procedures are in place for the trading company or LLP Partnership • Escalate and report risks, as appropriate, quarterly for consideration and action by CSB and the Head of Internal Audit
Shared Services (LBH Lead)	• Accept responsibility for managing risk as a core managerial competency • Manage the risks associated with their shared-services area, including those crossing area boundaries within their Directorate and their delegated budget allocation and service plan responsibilities • Ensure a risk register is in place for any business or project related risks relevant to the shared-services arrangement and the risk registers are reviewed at least quarterly • Compliance with risk policies and ensure staff are trained in risk management • Encourage staff to raise risks and send a message to staff that escalated risks will be evaluated and acted upon if necessary • Promptly advise senior managers of significant identified shared-services risks
Shared Services (LBH Non-Lead)	• Ensure that appropriate arrangements are in place to manage and escalate shared services related risks. • Actively manage risks within the shared-service arrangements participating in the regular update and maintenance of a shared-services risk register. • Report on risk management issues to the Lead-Authority. • Show a clear link between objectives and outcomes that is customer focused

Annex B (Cont'd)

Detailed Risk Management Responsibilities

Position	Role / Responsibilities
Head of Internal Audit	• Oversee, monitor and report compliance by officers with the Council's risk management framework and policies where these apply, including at the Council itself, in council arrangements for commercial and public sector partnerships and shared-service arrangements and also in trading companies and LLP partnerships established by the Council • Independently engage, monitor and challenge the Council (including in the above trading companies and LLP partnerships established by the Council and also including as appropriate council arrangements for commercial and public sector partnerships and shared service arrangements) and its staff on key risk management issues, • Be a central and professional point of contact on risk management for all the above, creating alliances/liaisons with council staff, including corporate directors and directorate DMTs and also including partner organisations, trading companies and LLP partnerships and commercial and public sector partnerships, to support them in their risk roles • Develop the risk management strategy and related guidance and templates • Provide tools, training/awareness and materials in support of council staff • Lead on corporate reporting of risk management to GARMS and CSB • Undertake ad hoc risk assessments. • Produce a risk based annual audit and anti-fraud plan • Undertake risk-based audit reviews and fraud investigations • Inform risk registers (ie by the provision of risk-based reports) • Provide independent assurance annually on the Council's control environment
External Audit	• Independently evaluate the effectiveness of the Council's risk management arrangements and where appropriate make recommendations for improvement further to their statutory function
Monitoring Officer	• Where it appears to the Monitoring Officer that a proposal under this strategy gives rise to a contravention of law or maladministration to alert the Council to this
All Council Officers	• Raise/escalate any risks identified or considered are not being sufficiently addressed or directly to the appropriate council manager • Maintain vigilance and a risk-aware attitude of mind at all times
Residents	• Raise any risk concerns considered not being sufficiently addressed by the Council, via your local statutory, residents, activity or consultative group(s), or through your councillor or other elected representative • Endeavour to maintain vigilance and a risk-aware attitude of mind at all times

Risk Reporting Cycle

Author	Risk Report/Output/Analysis	Distribution	Frequency
Cabinet	Approval of Risk Management Strategy. Approval of the Risk Appetite Statement	CSB	Annual
Head of Internal Audit	Oversee compliance with the Council risk management framework, oversee/facilitate a formal corporate risk assessment (CSB level) and Operational Risk Assessments (at the Directorate, Divisional and Team levels) and also at council trading companies and LLP Partnerships & Lead Shared Services levels, as part of the annual internal audit and budget planning process. Produce risk-based audit and anti-fraud plans. Undertake a fraud risk assessment process/exercise.	CSB and/or Company Board of Directors Partnership & Shared Service Boards	Annual
	Draft (risk-based) Internal Audit Plan Draft risk-based Anti-Fraud Plan Risk-based audit and fraud reports Draft AGS	GARMS	Annual
	Draft Risk Management strategy and policies and Appetite Statement Produce annual opinion on the control environment Update of the corporate risk register Oversee update of directorate, divisional and other risk registers	CABINET/CSB	Annual
Chief Executive	Sign off the Corporate Risk Register. Review and approve the Annual Governance Statement (AGS)	CSB, Head of Internal Audit GARMS	Annual
GARMS	Approve Draft (risk-based) Internal Audit Plan and Anti-Fraud plans. Approve Final AGS	Cabinet, CSB	Annual
Corporate Governance Group and Internal Audit	Annually undertake review of governance and produce and approve Draft AGS	GARMS	Annual
Corporate Directors/DMTs	Directorate Risk Assessment to create directorate Risk Register	DMT, Dir. Heads of Service, Head of Internal Audit	Annual
Improvement Boards	Review directorate risk registers and escalate any issues to CSB	CSB	Quarterly

Risk Reporting Cycle

Author	Risk Report/Output/Analysis	Distribution	Frequency
CSB	Review & discuss risk exception reporting Review and approve updates to the corporate risk register Review high-level risk report Approve emergent risks to and/or risks to be removed from the corporate risk register.	Corporate Directors, Head of Internal Audit	Annually
Corporate Directors/DMTs/Improvement Boards	Review & update of Dir. Risk Register. Escalate any risks that exceed the corporate and delegated risk appetite or have a corporate impact to CSB for inclusion on corporate risk register	CSB, DMT, Dir. Heads of Service, Head of Internal Audit	Quarterly
Commercial & Private Sector Partnerships	Review/ update partnership risk register and/or programme and project risk registers and risk reports. Escalate any risks that exceed the corporate and delegated risk appetite or have a corporate impact to the relevant Board and/or DMT or CSB for inclusion on directorate or corporate risk register	Partnership Board and/or Programme/Project Board and/or CSB/ DMT	Quarterly & Ad Hoc
Programme/Project Managers	Review/ update programme and project risk registers and risk reports	Programme/Project Board	Quarterly & Ad Hoc
Trading Companies & LLP Partnerships	Review & update of Trading Company or LLP Risk Register. Escalate any risks that exceed the corporate and delegated risk appetite or have a corporate impact to CSB for inclusion on the corporate risk register	CSB	Quarterly
Shared Services (LBH Lead-Authority)	Review & update of shared services risk register. Escalate any risks that exceed the corporate and delegated risk appetite or have a corporate impact to DMT or CSB for inclusion on directorate or corporate risk register	DMT/CSB	Quarterly
Shared Services (LBH Non- Lead-Authority)	Review/ update of shared services risk register. Escalate any risks that exceed the Harrow corporate and delegated risk appetite to the relevant Lead-Authority, Board and/or DMT or CSB for potential inclusion on directorate or corporate risk register	Lead-Authority and DMT/CSB	Quarterly

RISK RIGISTER

Review Date:

Next Review Date:

Risks

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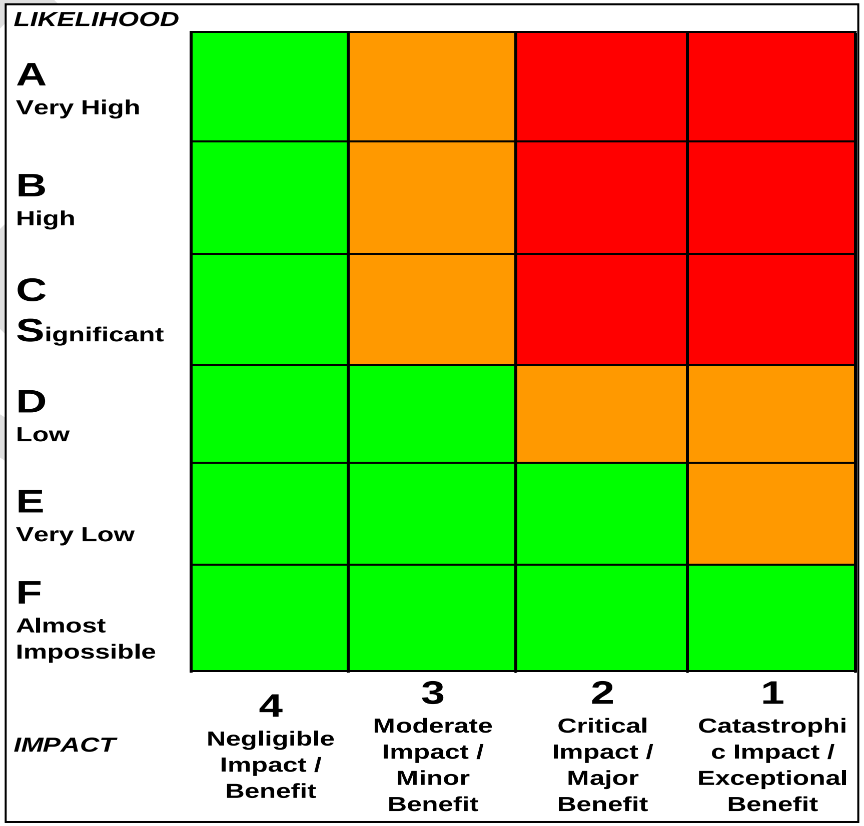


Standard Risk Register Template

Annex D (Cont'd)

No. X Ref	Corporate Priority/ Specific Objective	Risk Description	Inherent Risk Rating	Key Measures in place to Manage the Risk	Current Risk Rating	Further Action & /Implementation Date	Target Risk Rating	Manager Resp. /Risk Owner	Update
	Corp[orate Priority: **Objective(s):**	**Risk** **Causes:** • • • • **Consequences:** • • • •		• • • • • • • •		• • • • • • **Contingency Planning** • •			

1. INTRODUCTION AND BACKGROUND

1.1 This statement of risk appetite covers the period 2016-2020 so as to be fully aligned with the achievement of the Harrow Ambition Plan 2020. It will be reviewed annually at the Council to ensure it continues to reflect current and foreseen strategic circumstances and conditions.

1.2 The statement is drawn up by the Council responsibilities further to the above statutory instrument 2015 No. 234 Local Government, England & Wales: the Accounts and Audit Regulations 2015 Part 2 and also further to best professional practice in UK corporate governance as outlined in the UK Corporate Governance Code [2014] Section C: Accountability; wherein the Executive [the Cabinet] is responsible on an annual basis for "determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives". It is generally recognised that a statement of risk appetite fulfils this requirement.

1.3 The corporate governance best practice requirement to produce this statement or a similar statement of risk appetite exists strongly against and is connected to the background of the 2008 financial crisis and applies further to the Code in best practice terms to both private and public sector organisations in the UK.

1.4 It is intended that Cabinet review and approve the Statement to ensure that the risks the Council is willing to take to achieve its new corporate plan (the Harrow Ambition Plan 2020) are consistent and congruent with the Plan, are known, measured and are also consistent and compatible with the Council's capacity to bear risk and do not expose the Council, or its stakeholders, to an unknown, unmanaged or unacceptable degree of risk exposure.

1.5 The statement of risk appetite is also to be read and understood in conjunction with the Council's risk management strategy which must intrinsically support and be compatible with the Harrow Ambition Plan 2020. The approved statement of risk appetite will be incorporated into the risk management strategy and policy above.

2. DEFINITION OF RISK APPETITE

2.1 The risk appetite of the Council can still classically be defined as *"the amount and type of risk that an organisation [the Council] is prepared to seek, accept or tolerate"* (Source: British Standard on Risk Management BS31100 2009) or similarly, "The amount of risk that an organisation is willing to seek or accept in the pursuit of its long term objectives" (Source: Institute of Risk Management: Risk Appetite and Tolerance; Guidance Paper 2011).

2.2 Risk is defined "as a barrier to the achievement of strategic objectives" and risk management as "the process of understanding and managing the risks that an organisation is inevitably subject to in attempting to achieve its corporate objectives" (CIMA Official Terminology). Risks can therefore be seen not only as the more conventional threat or hazard type risks, they can also take the form of positive risk opportunities, or benefits to be innovated and exploited by the Council and its partners in entrepreneurial terms, and which will enhance, increase and/or accelerate the achievement of the Council's key strategic objectives.

2.3 The Council's statement of risk appetite has two aspects to it. This is firstly to clearly and fully state and quantify, and also to disclose to stakeholders, the nature and extent of the key risks it is taking on and is willing to embrace (or to exploit) as part of the delivery of the Harrow Ambition Plan 2020. This can be seen as the Council's inherent risk appetite or its "gross" acceptance of risk before control and management action take place during 2016-20

2.4 Secondly, it is also to clearly set an organisational policy within the Council, also communicated to its stakeholders, in regard to what quantifiable level of risk exposure it is prepared to retain after control and management action has been taken in relation to these risks and after which point no further action or mitigation will be undertaken by the Council in regard to the exposure. This can be seen as its residual or “net” risk appetite during the year.

2.5 Generally organisational attitudes to business risk, including in both private and public sector organisations, can be said to range across a spectrum of attitudes and appetites, ranging from **Low Risk** or risk- averse appetites at one end of the scale (here there is avoidance of any form of risk and uncertainty as a key organizational objective) through to an intermediary **Medium Risk** or cautious approach to risk (here the organisation’s preference is for safe delivery options that have a low degree of inherent risk) then ranging to a **High Risk** or risk-seeking position (here the organisation is strongly characterised by innovation and chooses service delivery options offering potentially higher financial returns and customer satisfaction/quality despite greater inherent risk in these activities).

2.6 It is important to note that inherent or gross risk appetites may often vary across different types of risk at different times, and may even vary across directorates in these terms and that an organisation’s overall gross risk appetite is often a composite, average or aggregate of the spread of these different risk appetites.

THE MAIN TYPES OF BUSINESS RISK TO BE TAKEN ON BY THE COUNCIL

2.7 As mentioned above the nature and main types of significant business risk that it is foreseen the Council will take on as part of its risk portfolio during 2016-20 and further to the achievement of it’s corporate plan (The Harrow Ambition Plan 2020) will be as follows:-

(a). Strategic Risk
(b). Financial Risk
(c). Service Delivery Risk
(d). Legal and Compliance Risk
(e). Reputation Risk

2.8 These risks can be defined in more detail as follows:-

Strategic Risk
This is the risk arising from the possible consequences of strategic decisions taken by the Council, or the risk of a failure to achieve corporate priorities and this risk should be identified, assessed and managed at the executive and senior management levels of the Council.

Financial Risk
This is the risk of changes in the Council’s financial condition and circumstances, such as for example, in its balance sheet assets and liabilities, its funding, investment, income and spending levels.

Service Delivery Risk
This is the risk arising from the nature of the Council’s operations, for example, the risk of a failure to deliver statutory or other services to residents, or to fail to provide required quality in services, or to fail to provide appropriate services in the event of an emergency.

Legal and Compliance Risk
This is the risk of successful legal action being taken against the Council, or of the Council breaching law in its activities and operations, and is also the risk of losses, possibly fines, and other sanctions arising from non-compliance with EU and UK laws and regulations.

Reputation Risk
This is the risk of a significantly adverse or damaging perception or view of the Council by the general public and Harrow residents.

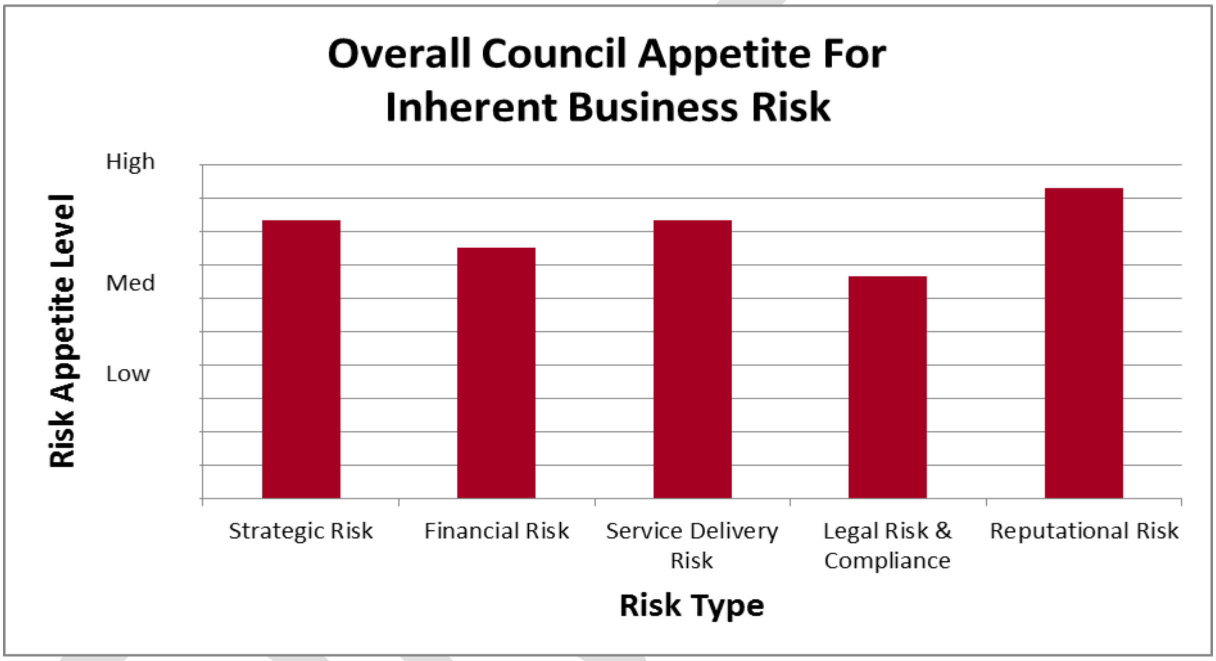
2.9 The Council values its proven organisational competencies and skill-sets in risk management and in enterprise risk management. During 2016-20 it will continue to take planned, controlled and measured levels of risk in pursuit of its strategic objectives.

3. THE COUNCIL'S RISK APPETITE IN 2016-20

3.1 During 2016-20 the Council will have in the main an open and moderately-high appetite for taking on risk to achieve the Harrow Ambition Plan 2020. It will be willing to consider all potential delivery options and choose those that are most likely to result in successful delivery while also providing an acceptable and targeted level of return and reward.

3.2 The Council's appetite for inherent or gross risk can thus be shown graphically in overall and summary terms as follows:-

Diagram 1: Overall Council Appetite for Gross Inherent Business Risk



3.3 Where significant risks arises the Council and its officers will take effective control action to mitigate these risks to minimal and safe levels of net residual risk exposure for its stakeholders.

3.4 It is to be noted however that whilst the Council will overall maintain a moderately high risk appetite, it will have areas within this where it maintains a much lower and risk-averse appetite for risk such as in delivering its statutory social services or in its treasury management function. These much lower risk appetite areas will however in turn be off-set by a commensurately higher level of risk appetite in other areas, for example in delivering its commercial and private-sector services or in supporting innovation and new models in service delivery.

In terms specifically of its borrowings and gearing the Council has total borrowings of approx. £334M (repayable in the main over period 2050-2060) and it's linked ratio of financing costs to revenue stream during 2016/17 will be 13% and in 2017/18 and 2018/19 will be 15% and 17% respectively. The interest cover for interest payments to long term debt for example is x 7.5 in 2016-17, x 6.66 in 2017/18 and x 6.0 in 2018/19.

3.6 The Council will therefore in this area be taking on low to medium levels of financial risk only in regard to its long-term debt borrowing and financing exposure in 2016/17 and beyond.

3.7 It is generally recognised that most business risks are not transferable to a third-party but where such risks can be transferred via insurance arrangements to a third-party, the Council's procures insurance to provide financial protection against these risks and so to mitigate the level of financial risk accepted by the Council.

3.8 External insurance contracts are regularly market-tested and are subject to large deductibles and claims below the deductibles are met from the Council's own internal insurance provision. All claims within a given financial year, irrespective of whether they are below the deductible, count towards an annual Aggregate Stop Loss and once this has been exceeded any further claims within the year will be met by insurers. The total of the Aggregate Stop Loss across the Liability, Property and Motor policies is currently £3.1M and in the event that payments for all liability claims arising in 2016/17 exceed this sum all payments over and above the Aggregate Stop Loss will become the insurer's responsibility.

3.9 The level of financial risk taken on and retained by the Council in relation to insurable risks thus reflects the fact that these risks are transferable and are limited by insurance arrangements and the final level of financial risk to be retained by the Council during 2016-20 will be limited by these arrangements.

3.10 During 2016-120 the Council believes strongly with confidence and ambition that it has the leadership, financial discipline, organisational make-up, foot-print and also people-talent in place to enable it to safely bear and manage this higher level of business risk and to manage it downwards to appropriate and acceptable levels of net residual risk exposure consistent with a local authority.

3.11 The Cabinet will therefore give its fullest support to embedding an organisational culture of new ideas and of ahead-of the-curve thinking at the Council on its services and further to this will be fully supportive to all council officers in the taking of necessary, calculated and measured risk in pursuit of achieving the objectives of the Harrow Ambition Plan 2020.

3.12 The Cabinet accepts in regard to the taking of risk that there may often be early failure and set-back in the longer term process of obtaining the returns and outcomes from the delivery of the Harrow Ambition Plan 2020 particularly in regard to developing new and innovative service models, including new commercial processes, which will be necessary to achieve the above Plan during this time of continuing financial austerity and challenge for the Council and local authorities generally in the UK.

3.13 Cabinet also accepts that over the medium-term, particularly in regard to becoming more business-like in its offering to the community, the Council will be required to shift its organisational risk appetite further still from its current moderately-high appetite in public-sector terms to a more private-sector and market-orientated and higher risk-seeking appetite in order for the objectives of the Harrow Ambition Plan 2020 to be fully achieved.

3.14 Where increased business or financial risks could arise in the UK economy over the coming years as a result of the UK's decision to leave the European Union, and be they negative threat risks and/or more positive opportunity benefits, the Council has recognised these possible scenarios and has in place a range of financial contingencies and strategic investment options to adjust to and mitigate downwards any significant risk arising so as to safeguard the achievement of its strategic objectives. These include capital investment real options in the Regeneration Programme and a range of financial contingencies, reserves and allowances in-built in the Council's medium term financial strategy.

4. THE HARROW AMBITION PLAN 2020

4.1 Harrow Council provides a range of services that improve the quality of life for communities businesses and vulnerable people. Harrow like all UK councils is experiencing immense budgetary pressures and reductions. In total these reductions will amount to approx. £54M between now and 2018. It is responding with vigour to these challenges by working to achieve the aspirations of the Borough and to deliver on its vision of 'Working together to make a difference for the vulnerable, communities, families and businesses'.

4.2 As outlined in the risk management strategy above between now and 2020 the Council will:

- Build a Better Harrow;
- Protect the Most Vulnerable; and
- Be More Business Like.

4.3 The Council has refreshed the vision, values and qualities we hope and expect our staff to exhibit to enable us to make the changes to the culture and community of the Borough to achieve our objectives while continuing to make the savings required from us by central government. These new values are:

- Be Courageous
- Do It Together
- Make It Happen

4.4 We are asking our staff to look to the future and to step forward to be bold and creative, to co-operate with each other and also with other organisational partners to overcome barriers and adversity and to promote the interests of the Council and the action that will build a Better Harrow.

4.5 Our priority of being more business-like will also ensure that our ambition and enthusiasm are tempered with realism. In addition to continuing to drive cost-cutting and efficiency projects at the Council we will also in more positive terms draw out and exploit the business synergies and market opportunities that exist between a public and a private sector organisation to ensure the Council can make a real and competitive offer to the community and can invest in and support a thriving, modern, inclusive and vibrant London borough that is for the collective benefit of all.

4.6 As the Council can no longer rely on the level of central government funding received in previous years, it will thus become more commercial with the growth of new business ventures in the private sector and in sharing and expanding services with other councils and public sector bodies and this will occur during 2016-20. These commercial initiatives are in the main being progressed as part of the Council's Project Infinity and Project Phoenix programmes.

4.7 The Council will continue to grow and expand its portfolio of shared services and joint working with other Councils and other organisations where there are clear benefits and advantages to this, particularly in the areas of economies of scale and service-quality.

4.8 It will also undertake an ambitious but affordable and cost-neutral regeneration programme to "Build a Better Harrow" creating thousands of much needed affordable and high-quality homes that will bring jobs and investment into the Borough as well as the generation of future income streams for the Council. It will continue to build new state-of-the-art schools and to create clearer greener neighbourhoods throughout the Borough.

4.9 The Council will also give the highest priority to creating a flourishing and contemporary arts life in the Borough and will endeavour to bring to the table a vibrant and significant arts and culture, leisure and entertainment offer for residents.

4.9 By 2020 Harrow Council additionally will move into a new Civic Centre in Wealdstone designed in consultation with residents for residents and which will be at the heart of their community.

4.10 Many of these actions and initiatives are significant and landmark projects and will inevitably mean the Council corporately taking on and carrying more significant risk, particularly commercial and business risk, than it has in previous years. These actions are determined and undertaken by the Council so as to access a commensurately increased financial and social return and reward for both the Council and its residents.

DIRECTORATE APPETITE FOR RISK

5.1 As mentioned above the appetite for business risk on a “gross” or inherent risk basis can vary across directorates. For example those Directorates that deliver statutory services and often dealing with vulnerable clients, such as People Services, will take much less levels of risks in what they do whilst other directorates, such as Resources and Communities, will be in many ways more business-orientated and will be more open to risk-seeking, for example in the supply of commercial services. Aggregate directorate risk appetite will therefore be a composite and aggregate of a number of differing risk appetites. During 2016-20 the risk appetite of directorates by type of business risk and on a directorate by directorate basis has been established from consultation with corporate directors and divisional heads of service and is outlined below:-

Diagram 2: Appetite for Acceptance of Strategic Business Risk

Diagram 3: Directorate Appetite for Acceptance of Financial Business Risk

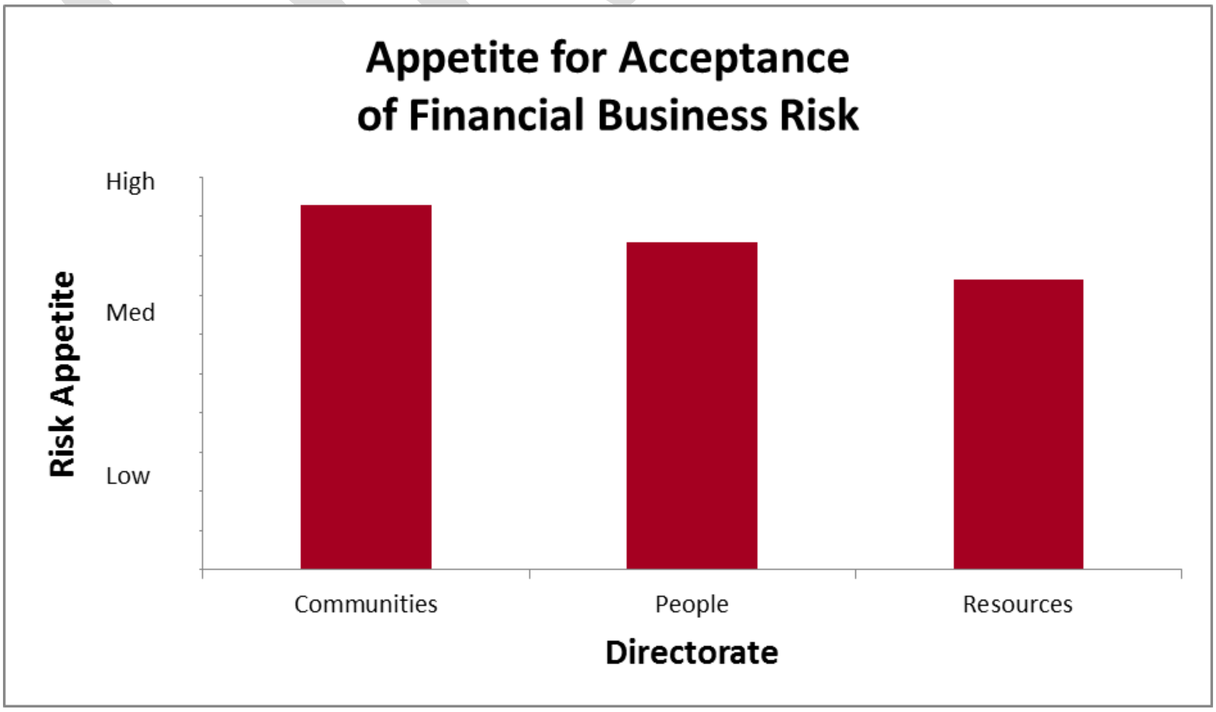


Diagram 4: Directorate Appetite for Acceptance of Service Delivery Business Risk

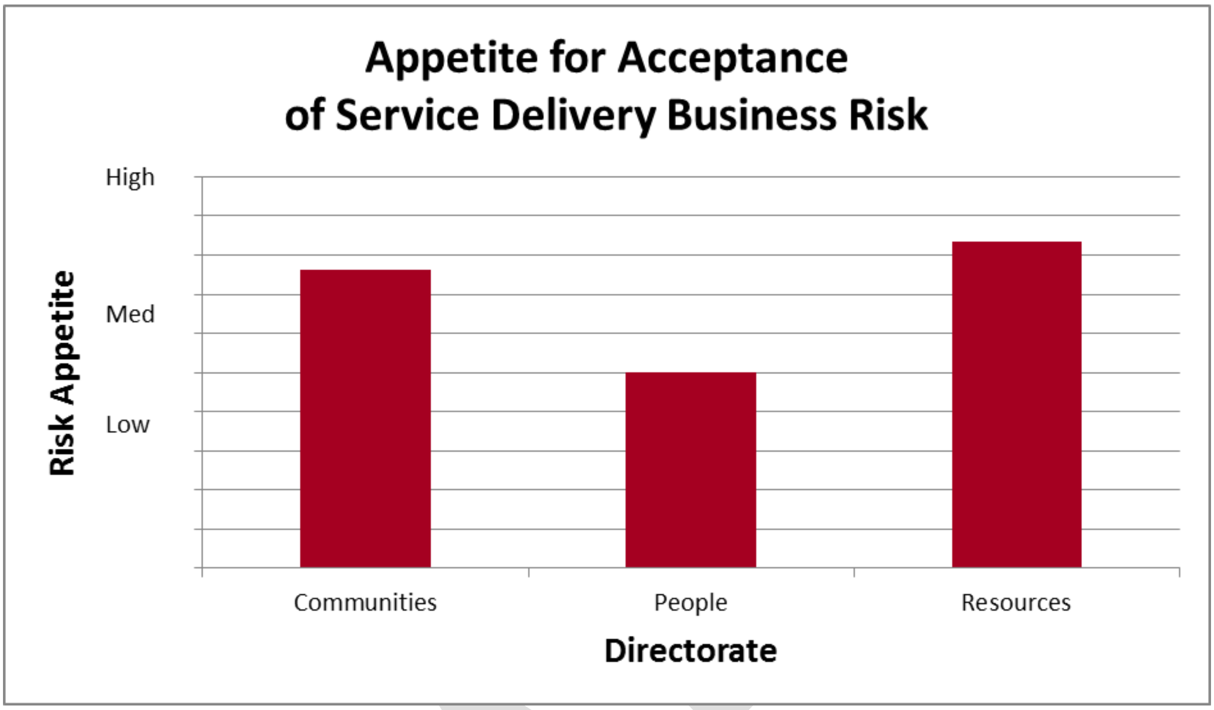
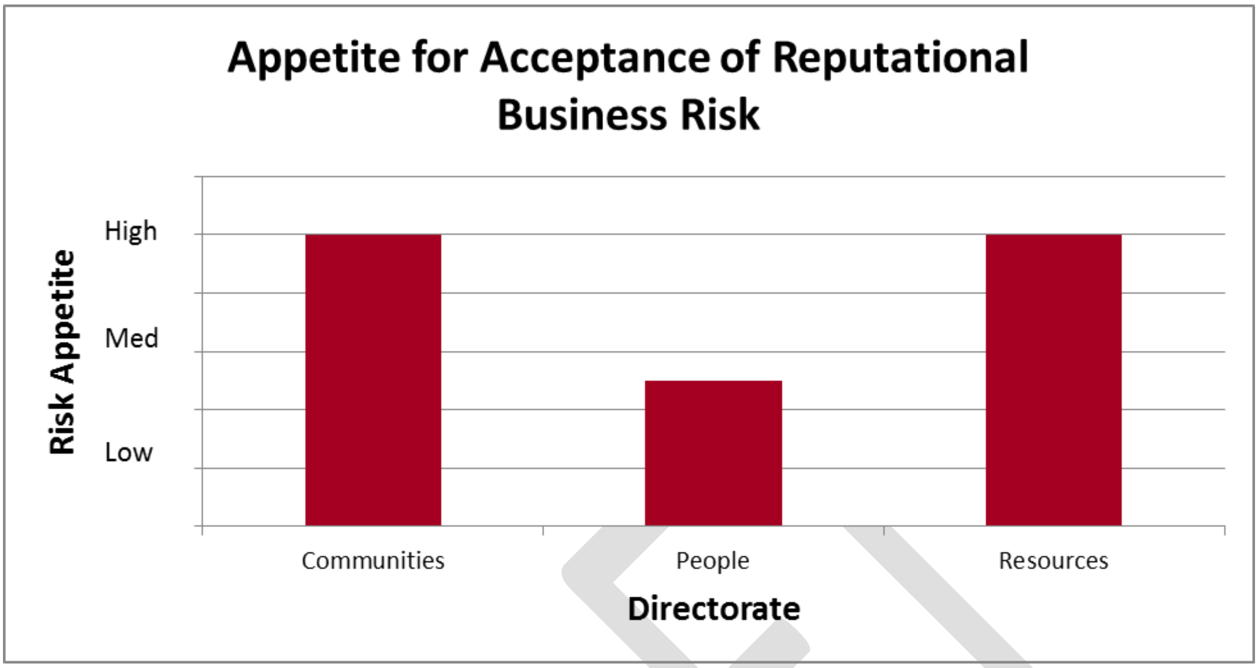


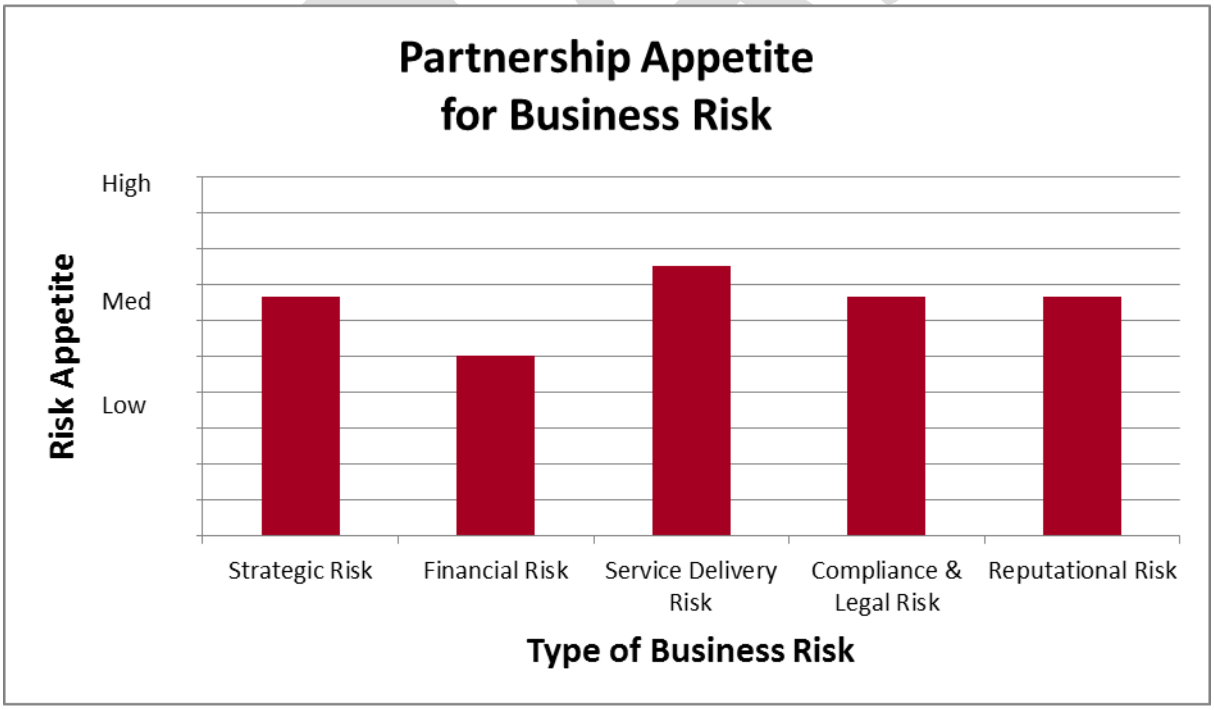
Diagram 5: Directorate Appetite for Acceptance of Legal and Compliance Business Risk

Diagram 6: Directorate Appetite for Acceptance of Reputational Business Risk



5.3 The Council's appetite for significant risk when collaborating with its public sector partner organisations, such as the NHS and Metropolitan Police, can be shown below:-

Diagram 7: Partnership Appetite for the Acceptance of Business Risk



5.4 The above risks are normal and consequential for the Council in conducting its business and delivering services across its directorates. They are generated in strategic and business terms by the ambition for and the delivery of the Harrow Ambition Plan 2020 and also exist with strong reference to the forecast challenging macroeconomic and microeconomic environment in the UK during 2016-20, including continuing reductions in the levels of government funding to councils.

5.5 Against this background the Council will seek to extend and grow its private-sector trading operations in order to generate the income and returns that can be used to compensate and off-set the effects of the above enforced and sustained reductions in funding and budgets. These factors have increased the level of business risk that will now be taken on by the Council during 2016-20 and therefore the Council will be accepting and taking on more levels of inherent business risk than in previous years and in this respect now has a higher gross risk appetite.

6. NET RISK LEVELS TO BE RETAINED BY THE COUNCIL IN 2016-20

6.1 Whilst the different types of risk above will commonly have different risk appetites and the appetites may vary from directorate to directorate, it is rare for any significant risk facing the Council to be purely composed of just one type of risk above, or to relate solely in impact to just one directorate. Most significant large scale risks will be composed of several risk dimensions and often have a relationship and inter-dependency in impact and likelihood terms with other risks and directorates.

6.2 The unifying factor in the Council's key, potentially large-scale and significant risks, are that they are inter-related in this way and often form part of a wider collection or cluster of risks and risk-exposures to the Council. Management of this key exposure is most effective and efficient when undertaken in common and collective terms, rather than on an individual risk by risk basis or appetite by appetite basis varying across different directorates.

6.3 For this reason all of the above significant risk types will be subject to the same managed down net risk appetite level, which will itself be risk-based, and will be driven by the significance and scale of the risk concerned and whether that significance is high, medium or low. Net or residual risk appetite level is the final level of exposure of unguarded and unprotected risk after mitigating the risk and is the point at which no further action will be taken in regard to the risk and the "do-nothing" option will be exercised and the risk simply taken.

6.4 Based on discussions with senior management the Councils Line of Net Residual Risk for 2016-20 is shown in the diagram below:

Diagram 8: Risk Appetite Line for Threat Risks

Council Risk Register Template				
Risk Likelihood				
A Very High (>80%)	**Risk C**		**Risk A**	
B High (51-80%)				**Risk B**
C Significant (25-50%)		**Risk D**		
D Low (10-24%)			**Risk E**	
E Very Low (3-9%)				
F Almost Impossible (0-2%)		**Risk F**		
Risk Impact	4. Negligible Impact or Benefit	3. Moderate Impact or Minor Benefit	2. Critical Impact or Major Benefit	1. Catastrophic Impact or Exceptional Benefit

Risk Appetite Line

6.5 All risks which appear above the bolded black risk appetite line are deemed to be unacceptable to be carried by in net risk terms by the Council and will require further action to be taken to manage down these risks into an area below the risk appetite line where net exposures are acceptable. Risks A and B are unacceptable in this regard. Risks at an exposure below the line are deemed acceptable.

6.6 In the above example Risks C, D, and E are deemed acceptable.

6.7 However In the area beneath the line, in which risks are acceptable, if there is any marked or significant variation or distance from the actual line of risk appetite then this could lead to the risk being disproportionately over managed to a level which is again effectively outside of the Council's risk appetite.

6.8 In the above example Risk F has been over managed. This is because a moderate or relatively scale small risk has in net residual risk terms been managed down in resource terms to an almost impossible level of likelihood and this is disproportionate to the risk being faced.

6.9 The Council recognizes that all risks should not be managed to the same extent but it should be noted further to the line of risk appetite that all significant risk (ie critical or catastrophic) will in all circumstances where possible be managed down to a low or very low net target risk exposure.

6.10 Where, however, the risk is deemed to be of lesser scale than catastrophic, a higher degree of residual risk exposure and lesser levels of mitigation (enabling a higher degree of measured and entrepreneurial risk-taking in business terms by officers) will be encouraged further to the pursuit of our corporate priorities.

6.11 Notwithstanding the above there may be occasions when by the nature of the appetite process and risks faced and also despite the best efforts of the Council to mitigate these risks to the desirable net level, it may not in fact be possible to do this.

6.12 In such cases the Council will be forced to accept or tolerate some risks at a higher net residual risk than what it would like to. These risks are termed tolerable risks and are tolerated or accepted against the net risk appetite level but importantly only within certain limits and beyond this limit will not be tolerated.

6.13 In short tolerated risks exist because whilst risk appetite relates to what an organisation actively wants to do, tolerated risks relate to what it is not prepared to do.

6.14 Tolerated risks are these higher risks and will in practice often correlate around risks relating to the Council's major project and change programmes, the commercial risks relating to new innovative services and trading in new markets and also external and environmental risks all of which have to be managed and mitigated within tight and often competing financial and resource constraints.

6.15 Based on discussions with senior management the Councils risk tolerance level for net risk exposure for threat risks (incorporating the above risk appetite line) during 2016-20 is shown below:-

Diagram 9: Risk Appetite and Tolerance Lines for Negative Threat Risks

Risk Tolerance Line for Threat Risks

Council Risk Register Template				
Risk Likelihood				
A Very High (>80%)		**Risk U**		
B High (51-80%)		**Risk V**		**Risk W**
C Significant (25-50%)		**Risk Y**	**Risk Z**	
D Low (10-24%)				**Risk X**
E Very Low (3-9%)				
F Almost Impossible (0-2%)				
Risk Impact	4. Negligible Impact or Benefit	3. Moderate Impact or Minor Benefit	2. Critical Impact or Major Benefit	1. Catastrophic Impact or Exceptional Benefit

Risk Appetite Line for Threat Risks

6.16 In the context of tolerated risks all risks which appear above the bolded white risk tolerance line are deemed to be unacceptable to be carried by the Council in net residual or target risk terms because they are outside both the risk tolerance and risk appetite levels of the Council. In the above example risks W and X are unacceptable for this reason. These risks will require further review and action by the Council. Management must ensure control action taken is sufficient and effective enough to achieve the target risk appetite rating which will be below either the risk tolerance or risk appetite lines and that such action can in fact be taken to mitigate the risk. If such action cannot be taken to treat or mitigate the risk then the Council must either terminate or transfer its involvement in the risk.

6.17 Risks at a net exposure below the tolerance line but above the risk appetite line in the shaded area above are deemed undesirable but nevertheless acceptable under current conditions and constraints. In the above example Risks U and V in the shaded area are being accepted and tolerated in these terms. Where practical or efficient to do so risks at an exposure level in the gap between the risk appetite line and the risk tolerance line will be managed to a level below the net risk appetite line.

6.18 In this way the Council will not allow a net risk exposure to settle above the risk tolerance line without further management action (either planned or in place) being taken to reduce the net risk. Risks at a net exposure below both the risk tolerance and appetite lines are deemed both desirable and acceptable in net risk terms. In the above example Risks Y and Z are at this net level/exposure.

6.19 An exception to this appetite and tolerance will be fraud risks. The Council will at all times seek to ensure that an absolute and zero-tolerance level is in place for any form of fraud, corruption or theft at the Council.

6.20 Where a residual or target risk level is in excess of the risk appetite exposure of the Council as indicated above, the risk must further to the Council's risk management strategy be escalated to the next management level for discussion, as part of normal risk reporting, e.g. department to division, division to directorate, improvement board to directorate level (project risks to the relevant project or programme and/or directorate boards) and, ultimately, from directorate level to the Corporate Strategic Board (CSB) of the Council. The framework for the reporting and escalation of risks within the Council is based on the organisational structure and normal reporting lines. As part of the risk escalation process, the next management level of the Council will be alerted to the risk and will therefore review and reassess it in terms of its impact and likelihood on the achievement of objectives at that next level and will take action as appropriate. This may mean as indicated above:-

- managing the risk directly in terms of its mitigation and control
- adjusting the level of risk they judge suitable for the level below to manage
- transferring the risk, if possible, appropriate, or cost effective to do so
- changing the activity giving rise to the risk or exiting the activity giving rise to the risk

6.21 The Council's risk appetite for positive opportunity risks will similarly be risk-based and will also incorporate risk-tolerances and based on discussions with senior management is shown below with reference to the standard risk register template:-

Diagram 10: Risk Appetite for Positive Opportunity Risks

Risk Tolerance Line for Positive Opportunity Risks

Council Risk Register Template ***Risk Likelihood***				
A Very High (>80%)		OPP F	OPP E	
B High (51-80%)	OPP G		OPP D	
C Significant (25-50%)		OPP C		OPP A
D Low (10-24%)			OPP B	
E Very Low (3-9%)				
F Almost Impossible (0-2%)				
Risk Impact	4. Negligible Benefit	3. Moderate or Minor Benefit	2. or Major Benefit	1. Exceptional Benefit

Risk Appetite Line for Positive Opportunity Risks

6.22 All opportunities which appear below and underneath the black line of net residual risk appetite are not being fully exploited and will require more management action by officers of the Council in order to more fully realize them and to shift them across the black line of net opportunity risk appetite. In the above example, Opportunities A and B are unacceptable for this reason and require further management review and action.

6.23 Opportunities that are being managed and pushed to a level above the black risk appetite line above are deemed acceptable because they are being exploited and realized in line with the Council's opportunity risk appetite wherein higher-value and higher-likelihood opportunities should be prioritised first in management action terms over lower-likelihood and lower-value opportunities. In the above example Opportunities C and D are deemed acceptable for this reason.

6.24 However, as with tolerated negative threat risks, there can also be tolerated opportunity risks. These arise in instances where higher value opportunities may require more time or planning to be fully developed and in the meantime there may be lower-value opportunities which may be more readily available on a “quick-win” basis. Where this is the case the Council will tolerate more management action and focus on these lower-value opportunities because whilst not as desirable as the higher-value and high-likelihood opportunities they are acceptable and optimal in circumstances where such opportunities cannot yet be exploited or may not exist. In the above example Opportunities E and F in the shaded areas located in the gap between the white line of risk tolerance and the black line of risk appetite are tolerated risk opportunities.

6.25 It is to be noted, as in principle with negative threat risks, that in the areas above the Line of Risk Appetite, if there is any marked or significant variation or distance from the actual line of opportunity risk appetite, then that opportunity is being over managed. Opportunity G in the example above is being over-exploited as it has been managed to high level of likelihood when it offers only a negligible benefit or reward and this is disproportionate. Therefore further to the above diagram opportunities which offer negligible benefit are not pursued as part of the Council’s risk appetite.

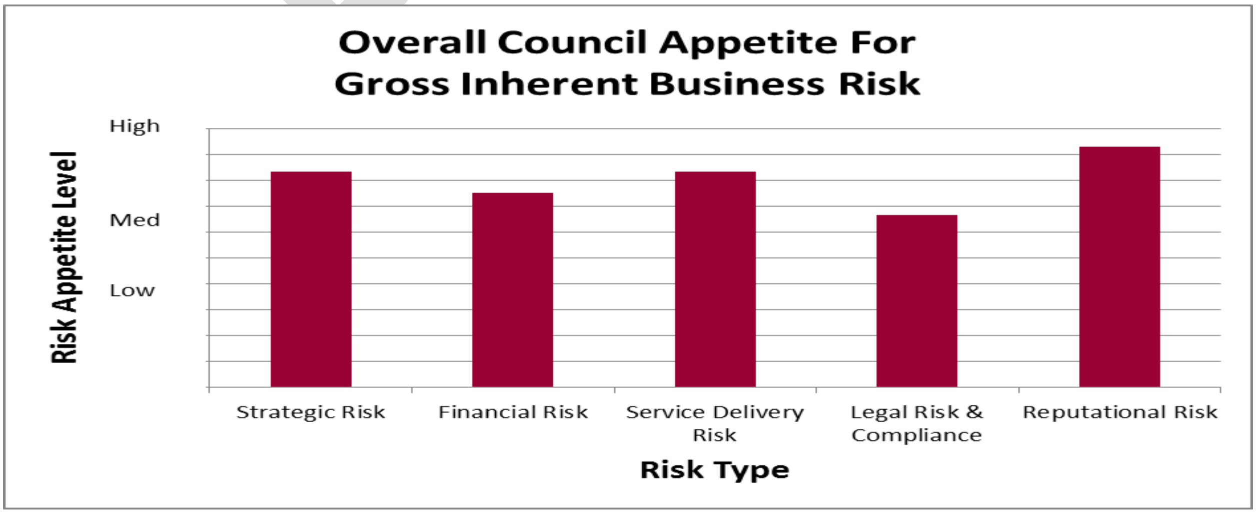
6.26 Management should therefore endeavour to stay above but close to the line of opportunity risk appetite and should prioritise larger scale opportunities which have a reasonable prospect of success over smaller scale opportunities which may have higher levels of likelihood. Where a positive risk opportunity is indicated as being managed outside of the Council’s risk appetite then this will be escalated as part of normal risk reporting processing to the next management level for review and action as outlined above in regard to negative threat risks. .

6.27 It is to be noted therefore that it is foreseen that the Council will during 2016-20 be taking on more significant risk in both the nature and the type of risk taken on, and which has to be subsequently managed to safe levels, than it has in previous years, particularly in regard to business, commercial and service-innovation risks and both its inherent and net risk appetites for 2016-20 are reflective of these factors.

6.28 Risk appetite and risk tolerance lines for both for negative threat risks and positive opportunity risks are not necessarily static and will be regularly monitored during the year for any material change or change in the Council’s circumstances that may affect them.

6.29 To conclude in overall terms and subsequent to discussions with senior management the Council’s gross inherent appetite for key and significant business risk during 2016-20 will be moderately-high as shown in the following diagram.

Diagram 11: Overall Council Gross Inherent Business Risk Appetite during 2016-20



7. CONTINGENCY PLANNING

7.1 Identified risks at the Council will as part of their management be subject to advance and proactive contingency planning. Contingency planning is the action that is foreseen to be taken if the risk, despite the best efforts of the Council to manage it, actually occurs and becomes an event or a live organisational issue. In this way it is intended that the action then taken will be more effective and issue-focused because it has benefited from forward planning and analysis so as to minimise the impact of the risk when it occurs.

8. DUTY OF OFFICERS

8.1 All of the Council's elected Members and its staff and officers, including when they are working in partnership and joint venture with other organisations, have a general duty and responsibility as part of their actions and agencies on behalf of the Council to manage risk as an integral part of their role, which includes ensuring they comply at all times with the framework and provisions of the risk management strategy and the risk appetite of the Council as outlined in this document.

9. MONITORING OF ORGANISATIONAL COMPLIANCE

9.1 Compliance with this risk appetite statement will be regularly monitored and reported on an on-going basis to CSB by the Council's Head of Internal Audit acting independently in their monitoring and challenging role in regard to risk management arrangements and also as part its role in the production of the Council's Annual Governance Statement.

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9.2 Compliance will also be further monitored by the GARMS committee of Members who monitor and challenge risk management activities and progress at the Council at a governance level.

REPORT FOR: **GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**

Date of Meeting:	31 January 2017
Subject:	Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2017/18
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix A – Legislation and Regulations Impacting on Treasury Management Appendix B – Treasury Management Delegations and Responsibilities Appendix C – Minimum Revenue Provision (MRP) Policy Statement Appendix D – Interest Rate Forecasts 2016-20 Appendix E - Economic Background Appendix F - Counterparties Appendix G - Affordability Prudential Indicators

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Harrow COUNCIL LONDON

Summary

This report sets out the Council's Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2017/18.

Recommendation

The Committee is asked to review and comment on the Treasury Management Strategy Statement for 2017/18 including:

- Prudential Indicators for 2017/18;
- Minimum Revenue Provision Policy Statement for 2017/18;
- Annual Investment Strategy for 2017/18; and
- Increase in investments held over 364 days (Paragraph 82)

Reason

To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

C	Minimum Revenue Provision (MRP) Policy Statement	
D	Interest Rate Forecasts 2016-20	
E	Economic Background	
F	Counterparties	
G	Affordability Prudential Indicators	

Section 2 – Report

1. INTRODUCTION

1.1 Background

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Treasury Management as:

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

   The Council has adopted this definition.

2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first main function 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 with approved counterparties or instruments commensurate with the Council's current investment strategy, providing adequate liquidity initially before considering investment return.

3. The second main function of the Treasury Management service is the funding of the Council's capital programme. This programme provides 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.

4. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code (The Prudential Code for Capital Finance in Local Authorities [CIPFA 2011 Edition]) and Treasury Management Code (Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes [CIPFA 2011 Edition]), in setting Treasury and Prudential Indicators for the next three years and in ensuring that the Council's capital investment programme is affordable, prudent and sustainable.

5. The Act, the Codes and Department for Communities and Local Government Investment Guidance (2010) require the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy that establishes the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. A summary of the relevant legislation, regulations and guidance is included as Appendix A.

6. The budget for each financial year includes the revenue costs that flow from capital financing decisions. Under the Treasury Management Code, increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the projected income of the Council for the foreseeable future.

7. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

1.2 CIPFA requirements

9. The Council has formally adopted the Treasury Management Code, the primary requirements of which are as follows:

    - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

    - Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

    - Receipt by the full Council and/or Cabinet of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

    - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

    - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

1.3 Reporting requirements

10. As introduced above, the Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Treasury Management Strategy Statement report (this report) **-** The first, and most important report is presented to the Council in February and covers:

- the capital programme (including Prudential Indicators);
- an 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).

Mid-year Review report – This is presented to Cabinet in the autumn and updates Members on the progress of the capital position, reporting on Prudential Indicators and recommending amendments when necessary and identifying whether the treasury strategy is meeting the objectives or whether any policies require revision.

Treasury Management Outturn report – This is presented to Cabinet in June/July and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy.

Scrutiny - The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet / Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMSC).

11. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions.

12. Further details of responsibilities are given in Appendix B.

1.4 Training

13. The Treasury Management Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in this area. This especially applies to Members responsible for scrutiny.

14. The Council's Treasury Management Adviser has recently presented an updated training session for all Members of GARMSC and other interested Members and other training opportunities will be offered as appropriate.

15. The training needs of Treasury Management officers are periodically reviewed as part of the Learning and Development programme with appropriate training and support provided.

1.5 Treasury Management Adviser

16. The Council has engaged Capita Asset Services, Treasury Solutions as its external Treasury Management Adviser.

17. However, the Council recognises that responsibility for treasury management decisions remains with itself at all times and will ensure that undue reliance is not placed upon external service providers.

18. 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 is assessed are properly agreed and documented, and subjected to regular review.

1.6 Treasury Management Strategy for 2017/18

19. The Strategy covers:-

Capital Issues (Section 2)

- Capital programme and capital prudential indicators 2017-18 to 2019-20 (Sub-section 2.1);
- Capital Financing Requirement (Sub-section 2.2);
- Minimum Revenue Provision Policy Statement (Sub-section 2.3 and Appendix C); and
- Core funds and expected investment balances (Sub-section 2.4).

Treasury Management Issues

- <u>Borrowing (Section 3)</u>
  - Current and estimated portfolio position (Sub-section 3.1);
  - Treasury indicators: limits to borrowing activity (Sub-section 3.2);
  - Prospects for interest rates and economic commentary (Sub-section 3.3 and Appendices D and E);
  - Borrowing strategy (Sub-section 3.4);
  - Treasury management limits on activity (Sub-section 3.5);
  - Policy on borrowing in advance of need (Sub-section 3.6); and
  - Debt rescheduling (Sub-section 3.7).

- <u>Annual Investment Strategy (Section 4)</u>
  - Investment policy (Sub-section 4.1);
  - Creditworthiness policy (Sub-section 4.2);
  - Country limits (Sub-section 4.3);
  - Annual Investment Strategy (Sub-section 4.4);
  - Investment risk benchmarking (Sub-section 4.5); and
  - End of year investment report (Sub-section 4.6).

Affordability Prudential Indicators (Section 5 and Appendix G)

20. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Communities and Local Government (DCLG) Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

21. It is not considered necessary to produce a separate treasury strategy for the Housing Revenue Account (HRA) in light of the co-mingling of debt and investments between HRA and the General Fund. Where appropriate, details of allocations of balances and interest to HRA are contained in this report.

2. CAPITAL ISSUES

22. The Council's capital expenditure programme is the key driver of treasury management activity. The output of the programme is reflected in the Prudential Indicators, which are required by the Prudential Code and are designed to assist Members' overview. The values shown in the tables for 2015-16 and 2016-17 are actual and estimated outturn respectively and not the strategy for those years.

2.1 Capital Programme and Capital Prudential Indicators 2017-18 to 2019-20

23. This prudential indicator is a summary of the Council's capital expenditure based on the approved capital programme. Amendments may be necessary in the light of decisions taken during the budget cycle. The table below summarises the capital programme and the ways in which it will be financed. Any shortfall of resources results in a financing need.

Table 1 Capital Expenditure and Funding

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure							
Community	22,043	43,122	52,831	47,154	19,883		
People Services	47,419	20,372	17,315	8,670	7,000		
Regeneration & Planning	2,402	11,899	46,130	197,870	81,638	3,827	756
Resources & Commercial	7,884	19,448	9,949	4,893	6,700		
HRA	13,553	14,016	15,238	8,639	8,639		
TOTAL	**93,301**	**108,857**	**141,463**	**267,226**	**123,860**	**3,827**	**756**
Funding:-							
Capital grants	51,827	29,997	15,108	16,746	5,805		
Capital receipts	3,282	11,843	2,563	1,248	93,024	3,746	12,752
Revenue financing	9,233	2,173	10,278	7,321	7,292		
Section 106 / Section 20	270	447	221	70	70		
TOTAL	**64,612**	**44,460**	**28,170**	**25,385**	**106,191**	**3,746**	**12,752**
Net financing need for the year	**28,689**	**64,397**	**113,293**	**241,841**	**17,669**	**81**	**- 11,996**

The capital programme overall is being agreed to 2019/20 whilst the Regeneration programme has been agreed for a further two years.

2.2 Capital Financing Requirement

24. The Capital Financing Requirement (CFR) is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

25. The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

26. The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a funding facility and so the Council is not required to borrow separately for them. The Council currently has £17m of such schemes within the CFR.

27. CFR projections are included in the table below.

Table 2 Capital Financing Requirement

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
CFR as at 31 March					
Non – HRA	268,264	316,762	413,029	639,035	639,120
HRA	149,477	152,541	154,701	154,685	154,669
TOTAL	**417,741**	**469,303**	**567,730**	**793,720**	**793,789**
Movement in CFR	**13,363**	**51,562**	**98,427**	**225,990**	**69**

Movement in CFR represented by					
Net financing need for the year	28,689	64,397	113,293	241,841	17,669
Less Minimum/Voluntary revenue provision and other financing movements	15,326	12,835	14,866	15,851	17,600
Movement in CFR	**13,363**	**51,562**	**98,427**	**225,990**	**69**

The Non-HRA CFR increases over the five years from £268m to £639m reflecting the regeneration programme, the property investment portfolio, secondary school expansion, the redevelopment of the depot, the renewal and replacement of highways, footways and streetlighting and upgrades and enhancements to ICT systems. Through a special determination the debt limit for the HRA has been increased to £154.7m and work will be carried out in line with this increase.

2.3 Minimum Revenue Provision (MRP) Policy Statement

28. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is funded by Council Tax.

29. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) require the Council to approve an MRP Statement setting out what provision is to be made in the General Fund for the repayment of debt, and how the provision is to be calculated. The purpose of the Statement is to ensure the provision is prudent, allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure benefits. The Council is recommended to approve the statement as detailed in Appendix C.

30. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

2.4. Core funds and expected investment balances

31. The application of resources (grants, capital receipts etc.) to finance capital expenditure or budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

3. BORROWING

32. The capital expenditure programme set out in Paragraph 23 provides details of the service activity of the Council. 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 the activities of the Council. This involves both the organisation of the cash flow and, where the capital programme requires it, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current and estimated portfolio position

33. The Council's borrowing position at 31 December 2016 is summarised below.

Table 3 Summary Borrowing and Investment Position at 31 December 2016

		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	218.5		
	Market	116.0	334.5	4.24
Variable rate funding			0	
Other long term liabilities (PFI & leases)			17.0	
Total Debt			351.5	
Total Investments at 31.12.2016			76.1	0.33

34. The Council has borrowed £70.8m under Lender Option, Borrower Option (LOBO) structures with maturities between 2050 and 2077. In exchange for an interest rate that was below that offered on long term debt by the PWLB, the lender has the option at the end of five years (and half yearly thereafter) to reset the interest rate. If the rate of interest changes, the Council is permitted to repay the loan at no additional cost.

35. The Council's borrowing position with forward projections is summarised below. The table shows the actual external debt, against the underlying capital borrowing need, highlighting any under or over borrowing.

36. The expected change in debt in 2017/18, 2018/19 and 2019/2020 reflects the anticipated borrowing necessary to meet the capital programme described in Table 1.

37. Debt outstanding should not exceed CFR.

Table 4 Changes to Gross Debt

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
External Debt					
Debt at 1 April	334,434	334,434	334,434	447,727	689,568
Expected change in Debt	-	-	113,293	241,841	17,669
Other long-term liabilities (OLTL) 1st April	18,075	17,032	16,000	15,000	14,000
Expected change in OLTL	- 1,043	- 1,032	- 1,000	- 1,000	- 1,000
Actual gross debt at 31 March	351,466	350,434	462,727	703,568	720,237
Capital financing requirement	417,741	469,303	567,730	793,720	793,789
Under / (Over) borrowing	**66,275**	**118,869**	**105,003**	**90,152**	**73,552**

38. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its 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 2017/18 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 purposes.

39. The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing programmes and the proposals in the budget report.

40. The table below shows the net borrowing after investment balances are taken into account.

Table 5 Net Borrowing

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Gross Borrowing brought forward 1 April	352,509	351,466	350,434	462,727	703,568
Changes to Gross Borrowing	-1,043	-1,032	112,293	240,841	16,669
Carry Forward 31st March	**351,466**	**350,434**	**462,727**	**703,568**	**720,237**
Investment brought forward 1 April	119,078	76,233	30,000	30,000	30,000
Changes to Gross Investments	-42,845	-46,233	0	0	0
Carry Forward 31st March	**76,233**	**30,000**	**30,000**	**30,000**	**30,000**
Total Net Borrowing	**275,233**	**320,434**	**432,727**	**673,568**	**690,237**
Change in net borrowing	**41,802**	**45,201**	**112,293**	**240,841**	**16,669**

The change in net borrowing in 2016/17 arises mainly from the reduction in cash balances of £46m and in subsequent years from additional borrowing.

3.2 Treasury indicators: limits to borrowing activity

The Operational Boundary

41. This is the limit which external debt is not normally expected to exceed.

42. The boundary is based on the Council’s programme for capital expenditure, capital financing requirement and cash flow requirements for the year.

The Authorised Limit for External Debt.

43. This is a further key prudential indicator which represents a control on the maximum level of borrowing. It represents a limit beyond which external debt is prohibited. It relates to the financing of the capital programme by both external borrowing and other forms of liability, such as credit arrangements.

44. 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’ programmes, or those of a specific council, although this power has not yet been exercised.

Table 6 Operational boundary and authorised limit

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Authorised Limit for external debt					
Borrowing and finance leases	418	469	568	794	794
Operational Boundary for external debt					
Borrowing	340	334	448	690	707
Other long term liabilities	17	16	15	14	13
Total	357	350	463	704	720
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing	340	334	448	690	707
Upper limit for variable rate exposure					
Net principal re variable rate borrowing	-	-	-	-	-
Upper limit for principal sums invested over 364 days	41	60	60	60	60

Due to the Council's current under borrowing position it is considered sufficient to set the Authorised limit at the same level as the CFR.

As shown in Table 10 in Appendix F below, the Council may wish to make additional investments of over 364 days. The current limit for such investments is £41m. To respond to potential new initiatives it is recommended that at this stage the limit for investments over 364 days be set at £60m.

HRA Debt Limit

45. Separately, the Council is also limited to a maximum HRA debt through the HRA self-financing regime. This limit and the HRA CFR are shown in the table below.

Table 7 HRA Debt Limit and CFR

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
HRA Debt Limit	151.34	154.84	154.84	154.84	154.84
HRA CFR	149.48	152.54	154.70	154.69	154.67
Headroom	**1.86**	**2.30**	**0.14**	**0.16**	**0.17**

3.3 Prospects for interest rates and economic commentary

46. The Treasury Management Adviser has provided a commentary on the prospects for interest rates included as Appendix D and an economic commentary included as Appendix E.

3.4 Borrowing strategy

47. As shown in Table 4 above, currently the Council has a debt portfolio of £350m, mainly long term, with an average maturity of 35 years assuming no early repayment of the LOBO loans. Adjusting LOBO loans maturity in line with the next interest reset date reduces the average maturity to 25 years. Cash balances at 31 December 2016 were £76.1m. With the investment portfolio yielding only 0.33% and the likely average cost of new debt 2.6%, there is a substantial short term cost of carrying excessive debt.

48. As shown in Table 4 above the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (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 source of funding. This strategy is prudent with investment returns low and counterparty risk is still an issue to be considered.

49. However, with the reduction in cash balances and the likelihood that they will be further reduced by the end of 2016/17 much of the increased capital programme in the next few years will need to be funded from borrowing. As shown in Table 4 above, it is currently estimated that sums of £113m, £242m and £18m will need to be borrowed in the next three years. The Council will have a range of funding sources available and will need to base its decisions on optimum borrowing times and periods taking into account current interest rates and likely future movements and the "cost of carry" (difference between rates for borrowing and rates for investments) which currently remains high. A strategy is being developed in consultation with the Treasury Management Adviser. It is also possible, but unlikely, that new long term borrowing in the next three years might be required if part of the LOBO portfolio has to be refinanced early.

50. It may be necessary to resort to temporary borrowing from the money markets or other local authorities to cover mismatches in timing between capital grants and payments. However, with several Government grants now paid early in the financial year this is not very likely.

51. Against this background and the risks within the economic forecast, caution will be adopted in the 2017/18 treasury management operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

    - if it was felt 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 borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

    - if it was felt 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. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

52. The Council has adopted a single pooled approach for debt. Allocations to HRA are based on its CFR, with interest charged to HRA at the average rate on all external borrowing. Longer term, the HRA's ability to repay borrowing will depend on future revenues and the capital expenditure programme.

3.5 Treasury management limits on activity

53. There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs and improve performance.

Upper limit on variable interest rate exposure

54. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. As shown in Table 6 above the Council does not expect to undertake any borrowing on this basis.

Upper limit on fixed interest rate exposure

55. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. The Council's proposed limits are shown in Table 6 above

Maturity Structure of Borrowing

56. 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.

57. The Council has no variable rate borrowing and the comments below relate only to its fixed rate portfolio.

58. In the table below, the maturity structure for the LOBO debt, in accordance with CIPFA Guidance, is shown as the first date that the interest rate can be increased.

Table 8 Maturity Structure of Fixed Rate Borrowing

	As at 31.12.2016 %	Upper limit %	Lower limit %
Under 12 months	24	30	0
12 months to 23 months	0	20	0
24 months to under 5 years	7	30	0
5 years to under 10 years	1	40	0
10 years and over	68	90	30

3.6 Policy on borrowing in advance of need

59. 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 future authorised limits, 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.

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

3.7 Debt rescheduling

61. Capita currently advise that:

As short term borrowing rates will be considerably cheaper 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 current treasury position and the size of the cost of debt repayment (premiums incurred).

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;*
- *enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).*

62. Opportunities to reduce the cost of debt by premature repayment or to improve the maturity profile are kept under review in discussion with the Treasury Management Adviser. Early repayment of market loans is by negotiation. For PWLB loans, there are daily published prices for early repayment that allows analysis of the opportunities for restructuring. There is currently a spread which has generally made restructuring uneconomic.

63. During June 2017 historic borrowings of £10m are due for repayment. These maturities will be met either from cash balances available at the time or from replacement borrowing.

64. Should any of the LOBO loans with interest rate reset dates in 2017-18 (£70.8m) require refinancing, the most likely source would be external borrowing.

65. All rescheduling will be reported to Cabinet at the earliest meeting following the exercise.

4. Annual Investment Strategy

4.1 Investment policy

66. The Council's investment policy has regard to the Department for Communities and Local Government Investment Guidance and the CIPFA Treasury Management Code. The Council's investment priorities will be security first, liquidity second, then return.

67. Advice received from Capita is:

We remain in a very difficult investment environment. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of, sometimes, extreme volatility and economic forecasts abound with uncertainty. However, we also have a very accommodating monetary policy - reflected in a 0.25% Bank Rate. As a consequence, authorities are not getting much of a return from deposits. Against this backdrop it is, nevertheless, easy to forget recent history, ignore market warnings and search for that extra return to ease revenue budget pressures. In this respect, we are seeing an increase in investment "opportunities" being offered to clients or being discussed in the wider press. What then, should you consider when these are offered?

We suggest that you "look under the bonnet" when considering pooled investment vehicles, although this applies to any investment opportunity. It is not enough that other councils are investing in a scheme or an investment opportunity: you are tasked through market rules to understand the "product" and appreciate the risks before investing. A quote from the Financial Conduct Authority puts the environment in context.

The main risks in the industry for the coming year are firms designing products that: -

- *aren't in the long-term interest of consumers*
- *don't respond to their needs*
- *encompass a lack of transparency on what's being sold*
- *lead to a poor understanding by consumers of risk*
- *shift toward more complex structured products that lack oversight.*

68. In accordance with the above guidance and in order to minimise the risk to investments, the Council in Appendix F clearly stipulates the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies. The Treasury Management Adviser monitors counterparty ratings on a real time basis with knowledge of any changes advised electronically as the agencies notify modifications.

69. Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess continually 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 this end the Council will engage with its Adviser to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

70. The aim of the strategy is to generate a list of highly creditworthy counterparties which will provide security of investments, enable divesification and minimise risk.

71. Investment instruments identified for current use are listed in Appendix F under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices.

4.2 Creditworthiness policy

72. The primary principle governing the Council's investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

    - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
    - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

73. The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

74. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria.

75. Credit rating information is supplied by the Treasury Management Adviser on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

76. The Council's criteria for an institution to become a counterparty are detailed in Appendix F.

4.3 Country Limits

77. The Council has determined that it will only use approved counterparties from the UK or from countries with a minimum sovereign credit rating of AAA. Currently the only countries meeting this criterion are Australia, Canada, Denmark, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden and Switzerland. The current UK rating is the third level of AA. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Annual Investment Strategy

78. **In-house funds.** The Council's funds are mainly cash derived primarily from the General Fund and HRA. Balances are also held to support capital expenditure. From 1st April 2011, pension fund cash balances have been held separately from those of the Council. However, a separate investment strategy has not been developed for the pension fund and all its cash is held on overnight call account with RBS. Investments are 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).

79. **Investment returns expectations.** Bank Rate is forecast by Capita to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank rate forecasts for financial year ends are:

2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%

80. Capita suggest that budgeted investment earnings rates for returns on investments placed for periods of up to 100 days during each financial year are as follows:

2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

81. Capita further advise that "The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace."

82. **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. The Council's limit for investments of over 364 days is currently £40.5m and Cabinet will be asked to approve an increase to £60m to take into account the purchase of homes by the Housing Development Vehicle.

83. Throughout 2016-17 interest rates receivable for short term investments have fallen substantially with the Council currently receiving 0.20% compared to 0.40% at the beginning of the year for deposits of under one month. The Council's bankers also reduced the call account rate from 0.25% to 0.01% in December.

84. As a consequence of these rates and the maturity of several higher yielding investments the Council's return for the whole year is likely to be close to 0.3%. Whilst this is still above the short term LIBOR benchmark and comparable to peer authorities it represents a substantial reduction from rates earned in recent years.

85. As a result of the Council's strategy and the interest rates available the only counterparties actively in use during 2016-17 have been Lloyds, Royal Bank of Scotland Group and Svenska Handelsbanken. The investment portfolio has inevitably remained concentrated with RBS and Lloyds with 78.3% of the total portfolio invested with them on 31st December 2016. When opportunities arise consistent with the Council's policies diversification will be sought but it is not anticipated that there will be any significant change during 2017-18.

4.5 Investment risk benchmarking

86. This Council uses the current LIBOR rates as a benchmark to assess the investment performance of its investment portfolio. In addition the Council is a member of a Capita investment portfolio benchmarking group through which performance is measured against peer London authorities. The risk of default attached to the Council's portfolio is reported by Capita on a monthly basis.

4.6 End of year investment report

87. At the end of the financial year the Council will report on its investment activity as part of the Treasury Management Outturn Report.

5. Affordability Prudential Indicators

88. The previous sections cover the overall capital and control of borrowing Prudential Indicators but within this framework Prudential Indicators are also required to assess the affordability of the capital investment programme. These provide an indication of the impact of the programme on the Council's overall finances and are shown in detail in Appendix G.

6. Legal Implications

89. The purpose of this report is to comply with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and other relevant guidance referred to in the report.

7. Financial implications

90. Financial matters are integral to the report.

8. Risk management implications

91. The identification, monitoring and control of risk are central to the achievement of treasury management objectives and to this report. Potential risks are identified, mitigated and monitored in accordance with Treasury Management Practice Notes approved by the Treasury Management Group.

92. Risks are included in the Directorate Risk Register.

9. Equalities implications

93. Officers have considered possible equalities impact and consider that there is no adverse equalities impact as there is no direct impact on individuals

10. Corporate priorities

94. This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 20 January 2017	X	Director of Finance
Name: Caroline Eccles Date: 20 January 2017	X	on behalf of the Monitoring Officer

Ward Councillors notified:	**No**
EqIA carried out: **EqIA cleared by:**	**No** **N/A**

Section 4 - Contact Details and Background Papers

Contact: Ian Talbot (Treasury and Pension Fund Manager) Tel: 020-8424-1450 / Email: ian.talbot@harrow.gov.uk

Background Papers: None

APPENDIX A

LEGISLATION AND REGULATIONS IMPACTING ON TREASURY MANAGEMENT

The following items numbered 1 - 4 show the sequence of legislation and regulation impacting on the treasury management function. The sequence begins with primary legislation, moves through Government guidance and Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice and finishes with implementation through the Council's own Treasury Management Practices.

1. Local Government Act 2003

Link below

Local Government Act 2003

Below is a summary of the provisions in the Act dealing with treasury management.

In addition the Secretary of State is empowered to define the provisions through further regulations and guidance which he has subsequently done through statutory instruments, Department of Communities and Local Government Guidance and CIPFA codes of practice.

Power to borrow
The Council has the power to borrow for purposes relevant to its functions and for normal treasury management purposes – for example, to refinance existing debt.

Control of borrowing
The main borrowing control is the duty not to breach the prudential and national limits as described below.
The Council is free to seek loans from any source but is prohibited from borrowing in foreign currencies without the consent of Treasury, since adverse exchange rate movements could leave it owing more than it had borrowed.
All of the Council's revenues serve as security for its borrowing. The mortgaging of property is prohibited.
It is unlawful for the Council to 'securitise', that is, to sell future revenue streams such as housing rents for immediate lump-sums.

Affordable borrowing limit
The legislation imposes a broad duty for the Council to determine and keep under review the amount it can afford to borrow. The Secretary of State has subsequently defined this duty in more detail through the Prudential Code produced by CIPFA, which lays down the practical rules for deciding whether borrowing is affordable.
It is for the Council (at a meeting of the full Council) to set its own 'prudential' limit in accordance with these rules, subject only to the scrutiny of its external auditor. The Council is then free to borrow up to that limit without Government consent. The Council is free to vary the limit during the year, if there is good reason.

Requirements in other legislation for the Council to balance its revenue budget prevents the long-term financing of revenue expenditure by borrowing.

However the legislation does confer limited capacity to borrow short-term for revenue needs in the interests of cash-flow management and forseeable requirements for temporary revenue borrowing are allowed for when borrowing limits are set by the Council.

The Council is allowed extra flexibility in the event of unforeseen needs, by being allowed to increase borrowing limits by the amounts of any payments which are due in the year but have not yet been received.

Imposition of borrowing limits
The Government has retained reserve power to impose 'longstop' limits for national economic reasons on all local authorities' borrowing and these would override authorities' self-determined prudential limits. Since this power has not yet been used the potential impact on the Council is not known.

Credit arrangements
Credit arrangements (eg property leasing, PFI and hire purchase) are treated like borrowing and the affordability assessment must take account not only of borrowing but also of credit arrangements. In addition, any national limit imposed under the reserve powers would apply to both borrowing and credit.

Power to invest
The Council has the power to invest, not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs.

2. Department for Communities and Local Government Investment Guidance (March 2010)

The Local Government Act 2003 requires a local authority "…..to have regard (a) to such guidance as the Secretary of State may issue…………." and the current guidance became operative on 1 April 2010.

The Guidance recommends that for each financial year the Council should prepare at least one investment Strategy to be approved before the start of the year. The Strategy must cover:

- **Investment security**

  Investments should be managed prudently with security and liquidity being considered ahead of yield

  Potential counterparties should be recognised as "specified" and "non-specified" with investment limits being defined to reflect the status of each counterparty

- **Investment risk**

  Procedures should be established for monitoring, assessing and mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed.
  The use of credit ratings and other risk assessment processes should be explained
  The use of external advisers should be monitored
  The training requirements for treasury management staff should be reviewed and addressed
  Specific policies should be stated as regards borrowing money in advance of need

- **Investment Liquidity**

  The Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed

The Strategy should be approved by the full Council and made available to the public free of charge. Subject to full Council approval, or approved delegations, the Strategy can be revised during the year.

3. Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA 2011)

The primary requirements of the Code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the full Council or Cabinet of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

4. The Prudential Code for Capital Finance in Local Authorities (CIPFA 2011) – Guidance 2013

Compliance with the objectives of the Code by the Council should ensure that:

- Capital expenditure plans are affordable in terms of their implications on Council Tax and housing rents
- External borrowing and other long term liabilities are within prudent and sustainable levels
- Treasury management decisions are taken in accordance with good professional practice

As part of the two codes of practice above the Council is required to:

- agree a series of prudential indicators against which performance is measured
- produce Treasury Management Practice Notes for officers which set out how treasury management policies and objectives are to be achieved and activities controlled.

APPENDIX B

TREASURY MANAGEMENT DELEGATIONS AND RESPONSIBILITIES

The respective roles of the Council, Cabinet, GARMSC, the Section 151 officer, the Treasury Management Group the Treasury and Pension Fund Manager and the Treasury Team are summarised below. Further details are set out in the Treasury Management Practices.

Council

Under the Constitution, the Council is responsible for “decisions relating to the control of the Council’s borrowing requirement.”

It agrees the annual Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Cabinet

Under the Constitution, the Cabinet “will exercise all of the local authority functions which are not the responsibility of any other part of the local authority, whether by law or under this Constitution.”

It considers and recommends to Council the annual Treasury Management Strategy Statement and receives a mid-year report and annual outturn report on Treasury Management activities.

Governance, Audit, Risk Management and Standards Committee

GARMSC reviews the Treasury Management Strategy and monitors progress on treasury management in accordance with CIPFA codes of practice.

Director of Finance (Section 151 Officer)

Under S151 of the Local Government Act 1972 the Council “shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.” At Harrow, this responsibility is exercised by the Director of Finance.

The Director is responsibility for implementing the policies agreed by the Council and Cabinet.

Under the Local Government Finance Act 1988 and the Local Government Act 2003 the Director also has responsibilities in respect of budget arrangements and the adequacy of resources. In terms of Treasury Management this means that the financing costs of the

Capital Programme are built into the Revenue Budget as are any assumptions on investment income.

The Director chairs the Treasury Management Group and agrees major treasury management decisions, specifically including any borrowing decisions, delegated to officers.

Treasury Management Group

Comprises Director of Finance, Head of Strategic and Technical Finance (Deputy S151 Officer), Treasury and Pension Fund Manager, Senior Finance Officer and is responsible for:

- Monitoring treasury management activity against approved strategy, policy, practices and market conditions;
- Ensuring that capital expenditure plans are continually reviewed in line with budget assumptions throughout the year to forecast when borrowing will be required.
- Approving changes to treasury management practices and procedures;
- Reviewing the performance of the treasury management function using benchmarking data on borrowing and investment provided by the Treasury Management Adviser (Capita Asset Services);
- Monitoring the performance of the appointed Treasury Management Adviser and recommending any necessary actions
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function;
- Monitoring the adequacy of internal audit reviews and the implementation of audit recommendations

Treasury and Pension Fund Manager

Responsible for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Management Strategy Statement and CIPFA's "Standard of Professional Practice on Treasury Management"

Treasury Team

Headed by Senior Finance Officer with responsibility for day-to-day treasury and investment and borrowing activity in accordance with approved Strategy, policy, practices and procedures and for recommending changes to the Treasury Management Group

APPENDIX C

Minimum Revenue Provision (MRP) Policy Statement

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the equal annual reduction of 2% of the outstanding debt at 1 April 2015 for the subsequent 50 years.

- For all capital expenditure financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance.

- In some cases where a scheme is financed by prudential borrowing it may be appropriate to vary the profile of the MRP charge to reflect the future income streams associated with the asset, whilst retaining the principle that the full amount of borrowing will be charged as MRP over the asset's estimated useful life.

- A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts.

- Estimated life periods and amortisation methodologies will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

- Freehold land cannot properly have a life attributed to it, so for the purposes of Asset Life method it will be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate will be used for the land.

- As some 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. Also, 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.

- Repayments included in annual PFI or finance leases are applied as MRP.

- Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.

- Under Treasury Management best practice the Council may decide to defer borrowing up to the capital financing requirement (CFR) and use internal resources instead. Where internal borrowing has been used, the amount chargeable as MRP may be adjusted to reflect the deferral of actual borrowing.

APPENDIX D

Provided by Capita Asset Services at 20 December 2016

Interest Rate Forecasts 2016 - 2020

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

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. 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.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
    - Italian constitutional referendum 4.12.16 resulted in a ‘No’ vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
    - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
    - Dutch general election 15.3.17;
    - French presidential election April/May 2017;
    - French National Assembly election June 2017;
    - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.

- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

APPENDIX E

Provided by Capita Asset Services at 20 December 2016

Economic Background

United Kingdom

GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government’s continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee, (MPC), meeting of 4th August was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23

November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16).This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October.The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. House prices have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA

The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the bond market and bond yields rose sharply in the week after his election. Time will tell if this is a a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

Eurozone

In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ:

- Greece continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.

- Spain has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

- The under capitalisation of Italian banks poses a major risk. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.

- 4 December Italian constitutional referendum on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- Dutch general election 15.3.17; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- French presidential election; first round 13 April; second round 7 May 2017.

- French National Assembly election June 2017.

- German Federal election August – 22 October 2017. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.

- The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia

Economic growth in China has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in Japan is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries

There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels

Brexit timetable and process

As understood in December 2016 the Brexit timetable and process is proposed as follows:

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50

- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.

- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.

- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.

- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.

- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

APPENDIX F

Counterparties

Specified Investments

These are sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the lender has the right to be repaid within 364 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. The instruments and credit criteria to be used are set out in the table below.

Table 9 Specified Investments

Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – other LAs	Local Authority issue	In-house
Term deposits – banks and building societies	AA- Long Term F1+Short-term 2 Support UK or AAA Sovereign	In-house
Money Market Funds	AAA	In-house

Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as Specified above).They normally offer the prospect of higher returns but carry a higher risk. The identification and rationale supporting the selection of these other investments are set out in the table below.

Table 10 Non - Specified Investments

	Minimum Credit Criteria	Use	Max total investment	Max. maturity period
Term deposits – banks and building societies (excluding Lloyds / HBOS)	A Long Term F1 Short-term UK or AAA Sovereign	In-house	50%	3 months
Lloyds / HBOS	A Long Term F1 Short-term	In-house	50%	6 months
Callable Deposits	A Long Term F1 Short term	In-house	20%	3 months
UK nationalised Banks [RBS]	F2 Short-term	In-house	60%	36 months
Enhanced Cash Funds	AAA	In-house	25% (maximum £10 million per fund)	Minimum monthly redemption
Corporate bonds pooled funds, other non-standard investments and gilts		In house	£10m in total	Dependent on specific agreement
HB Public Law Ltd		In house	£0.1m	36 months

	Minimum Credit Criteria	Use	Max total investment	Max. maturity period
Investment Property Strategy *		In house	£20.0m	Dependent on specific agreement
Concilium Business Services Ltd t/a Smart Lettings Ltd		In house	£0.274m	36 months
Concilium Group Startup capital		In house	£0.702m	60 months
Concilium Group 5% Long Term Investment		In house	£1.5m	Dependent on specific agreement
Cultura London re Harrow Arts Centre		In house	£1m	25 years
Housing Development Vehicle (LLP) – Initially on acquisition of 100 homes		In house	£30m	Dependent on specific agreement

*Investment to date totals £5.3m

APPENDIX G

Affordability Prudential Indicators

1 Ratio of Financing Costs to Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing, depreciation, impairment and other long term obligation costs net of investment income) against the net revenue stream. Tables 11 and 12 below show the current position for the General Fund and HRA respectively.

Table 11 Ratio of Financing Costs to Revenue Stream – General Fund (excluding Regeneration)

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
Net revenue stream (£'000)	164,794	164,987	162,955	156,106	151,148
Interest costs (£'000)	7,866	7,724	8,212	10,229	10,566
Interest costs - finance leases (£'000)	1,766	1,700	1,700	1,700	1,700
Interest and investment income (£'000)	-1,817	-1,332	-1,300	-1,300	-1,300
MRP (£'000)	15,326	12,835	14,866	15,851	17,600
Total financing costs (£'000)	23,141	20,927	23,478	26,480	28,566
Ratio of total financing costs against net revenue stream (%)	14.0	12.7	14.4	17.0	18.9

The ratio of total financing costs against net revenue stream increases significantly between 2016-17 and 2019-20 due to the impact of the capital programme and the increase in MRP.

Table 12 Ratio of Financing Costs to Revenue Stream – HRA

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
Gross revenue stream (£'000)	32,111	32,306	32,056	31,943	32,161
Interest costs of self-funding borrowing (£'000)	3,078	3,752	3,752	3,752	3,752
Interest costs of other borrowing (£'000)	3,265	2,699	2,763	2,809	2,808
Interest and investment income (£'000)	-156	-51	0	0	0
Depreciation (£'000)	7,789	6,570	7,314	7,321	7,292
Impairment (£'000)	177	0	0	0	0
Total financing costs (£'000)	14,153	12,970	13,829	13,882	13,852
Ratio of total financing costs against gross revenue stream (%)	44.1	40.1	43.1	43.5	43.1
Ratio of total financing costs (excluding depreciation and impairment) against net revenue stream (%)	19.3	19.8	20.3	20.5	20.4

The ratio of total financing costs against gross revenue stream falls substantially between 2015-16 and 2016-17 and subsequently rises mainly due to the effect on depreciation charges of the self-financing transitional measures.

The ratio of total financing costs (excluding depreciation and impairment) against net revenue stream shows a gradual increase due largely to the mandatory reduction in dwelling rent and the reduction of interest income due to reducing balances on the revenue account and Major Repairs reserve.

2 Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents

This indicator identifies the revenue costs associated with proposed capital programme and the impact on Council Tax and Housing Rents.

Table 13 Incremental Impact of Capital Investment Decisions (excluding Regeneration) – Council Tax

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
Net Financing need (£'000)	26,287	52,498	67,163	43,971	27,778
Borrowing @ 25-50years PWLB rate (£'000)	854	1,412	2,040	1,402	885
MRP @ 2% (£'000)	526	1,050	1,343	879	556
Total increased costs (£'000)	**1,380**	**2,462**	**3,383**	**2,281**	**1,441**
Ctax base (£'000)	79,795	82,000	83,500	83,500	83,500
% Increase	1.7	3.0	4.1	2.7	1.7
Band D Council Tax	1,529	1,560	1,560	1,560	1,560
Overall increase £ pa	**26.44**	**46.84**	**63.21**	**42.62**	**26.92**

The financing of the Regeneration project is discussed in detail in the report to Cabinet of 19 January 2017.

Table 14 Incremental Impact of Capital Investment Decisions – Housing Rents

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
Net Financing need (£'000)	-	-	-	-	-
Borrowing @ 25-50years PWLB rate (£'000)	-	-	-	-	-
Depreciation @ 2% (£'000)	-	-	-	-	-
Total increased costs	-	-	-	-	-
Number of dwellings	4,867	4,840	4,879	4,874	4,839
Increase in average housing rent per week £	**-**	**-**	**-**	**-**	**-**

3 Local HRA indicators

The Council should also be aware of the following ratios when making its treasury management decisions.

Table 15 HRA Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
Debt (CFR) (£m)	149.48	152.54	154.70	154.69	154.67
Gross Revenue Stream (£m)	32.11	32.31	32.06	31.94	32.16
Ratio of Gross Revenue Stream to Debt (%)	**21**	**21**	**21**	**21**	**21**
Average Number of Dwellings	4,867	4,847	4,860	4,877	4,857
Debt outstanding per dwelling (£)	**30,712**	**31,471**	**31,831**	**31,717**	**31,845**

Rents in the Housing Revenue Account are projected to reduce by 1% each year for four years commencing in 2016/17, in line with the provisions of the Welfare Reform and Work Act. The reduction in income is expected to be mitigated over the next two years by additional rent income generated as a result of an increase in HRA property numbers from the Council's HRA new build and purchase and repair programmes.

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