CAPITAL STRATEGY
2018-22

Introduction

This strategy sets out the. County Councils approach to compiling the capital programme, its priorities, availability of funding and financial management.

The County Councils capital programme is derived primarily from the Strategic Plan. It aligns with departmental commissioning and service plans to ensure a prioritised, joined up use of resources to maximise outcomes for all Leicestershire service users, citizens and other stakeholders.

The Chartered. Institute of Public Finance (CIPFA) have recently updated the requirements for a capital strategy which should be adopted from 2019/20. This strategy (and the Corporate Asset Investment Fund Strategy and Treasury Management Strategy) includes the main requirements but will be developed further over the next year to ensure that it fully compiles with the new requirements from 2019/20.

The overall approach to developing the capital programme is based upon the following key principles;

- To invest in priority areas including schools, roads, and other essential infrastructure, economic growth and projects that generate positive financial returns.
- Passport central government capital grants received for key priorities for highways and education to those departments.
- Maximise other sources of income such bids to the LLEP, section106 housing developer contributions and other external funding agencies.
- Maximise the achievement of capital receipts.
- No or limited prudential borrowing (only if the returns exceed the borrowing costs).

Funding Sources

Due to the challenging financial environment the capital programme, where possible, will be funded without increasing the impact upon the County Council's on-going revenue budget. One off revenue contributions will be used to support the capital programme resources when prioritisation cannot contained the demand.

In recent years the on-going revenue position has been successfully managed by funding the capital programme from a combination of central government grant allocations, other external grants, capital receipts, external contributions and one off revenue contributions. No new prudential borrowing is planned.

The approach to funding is:

External Funding

- Central Government Grants — passport grants to the relevant departments, even when not ring fenced.

- **External Grants - maximise bids for funding from external sources including providing matched funding where appropriate to do so, subject to approval of fulfilment conditions and any contingent liabilities.**
- **External Contributions — maximise section 106 claims/ contributions to cover the full capital costs.**

Discretionary Programme

- **Capital Receipts— maximise individual receipts and use to fund the discretionary capital programme.**
- **Earmarked Capital Receipts — only to be used in situations where this is an unavoidable requirement of an external party, for example, there is a requirement to gain DfE approval for the disposal of education assets, with the related receipts to be earmarked to education assets. These will be reviewed on a case by case basis to ensure the requirement is met and to consider options for substitution of discretionary funding where appropriate.**
- **Revenue underspends and surplus earmarked funds — review opportunities as they arise to contribute to the discretionary capital programme.**
- **Prudential borrowing — only to be used after all other available funding and only then where the incremental costs are fully funded from savings from the new investment. Internal borrowing (from County Council cash balances) would be prioritised over external borrowing.**
- **Leasing — Due to the County Council's ability to access relatively inexpensive funding rental/ lease proposals need to be appraised to ensure additional benefits justify the financing cost.**

Other

- **Renewal Earmarked Funds — held to make an annual contribution reflecting the life and replacement cost of the asset. Use when the service is externally funded (commercial, partnerships, specific grants) or small scale asset owned by an individual service. Larger more significant assets will be funded through the discretionary capital programme.**
- **Building Maintenance — funded through the Central Maintenance (revenue) Fund (CMF). Significant lifecycle replacements to be funded through the discretionary capital programme.**
- **Tax Incremental Financing (TIF) — investment repaid from additional income generated, for example additional Business Rates.**

Capital Requirements

Children's and Family Services

Demand	£	Funding
Meet demand for new school places.	High	Central Government grants Developer contributions (section 106)
Maintenance and renewal for: Maintained school estate Children's Centres	 High Low	 Central Government grants Discretionary Programme
Children's social care (minimal demand as commissioned service)	Low	Spend to save

Adults and Communities

Demand	£	Funding
Disabled Facilities Grant	Mid	Central Government grants
Maintenance and renewal for: Libraries & Heritage Community Libraries	 Low Low	 Discretionary programme Support external funding bids
Adult Social Care* (minimal demand from commissioned service)	Low	Spend to save

*Supported Living accommodation for working age adults, shown under future developments

Public Health

Demand	£	Funding
Public Health (minimal demand from commissioned service)	Low	Spend to save

Environment and Transport

Demand	£	Funding
Maintenance of the highway infrastructure (using asset management principles)	High	Central Government grants Discretionary programme
Improvement to the highway infrastructure Major schemes Minor Schemes Advanced Design	 Mid Mid Mid	External Funding Central Gov't grants (inc. LLEP, TIF) Central Government grants Discretionary programme
County Council vehicle replacement programme	Mid	Discretionary programme
Maintenance and renewal of waste management infrastructure	Mid	Discretionary programme

Chief Executives

Demand	£	Funding
Economic Development (e.g. Broadband)	Mid	Central Government and External grants Discretionary programme (inc. TIF)
Programme of small shire community grants	Low	Discretionary programme
Other Services	Low	Spend to save, Discretionary programme

Corporate Resources

Demand	£	Funding
ICT Infrastructure Renew and expand the current corporate estate Major ICT upgrades and replacements	Mid	 Discretionary programme Discretionary programme + Spend to save
Property Estate* Regulatory compliance Expansion and replacement	Mid	 Discretionary programme Spend to save
Commercial Services Replacement Expansion/Improvement	 Low	 Renewal reserve Spend to save
Transformation/change	Low	Spend to save

* maintenance of current properties funded from central maintenance fund (revenue budget)

Corporate Programme

Demand	£	Funding
Corporate Asset Investment Fund	High	Spend to save
Deliver energy and water strategy	Mid	Spend to save

Future Developments Programme

Demand	£	Funding
Including: Collections and Records Hub, Health and Social Care Service User Accommodation, Melton Mowbray Distributer Road, Oracle Replacement, Workspace Strategy, Fire Safety.	High	One off revenue and earmarked fund contributions Reinvest returns Spend to save

External Funding

To ensure that funding is at the required level the following approach will be taken.

Children and Family Services
Maximise DfE capital grant through up to date capacity assessments and school place data. Submit bids, where appropriate to do so, for additional DfE capital funding when available. Take opportunities to lobby the DfE for additional funding.

Adults and Communities
Work with District Councils and other partners to ensure that the Disabled Facilities Grant is at an appropriate level and how it is spent to reduce the costs of adult social care. Take opportunities to lobby the Department of Health for Social Care infrastructure grants.

Environment and Transport
Attain Highways Infrastructure Asset Management Planning Level 3 by April 2018 and maintain. Invest in advance design and business case development work focused on government priorities to access capital grants (which are increasingly being channelled through bidding processes) and developer funding.

Section 106 Contributions
Maximise section 106 contributions through recovery of the total costs of required developments and regular review of key assumptions used (at least annually). Where funding of capital expenditure is required in advance of the receipt of section 106 income (usually paid on completion of trigger points) projects may require initial cash flow by the County Council or from rescheduling grant expenditure. This will be kept to a minimum, but where it is required, for instance highway infrastructure for new housing developments, to minimise risks developers will be engaged early in the process and by ensuring that section 106 agreements are robust.

Tax Incremental Financing
The County Council will work with District Councils on construction schemes that unlock infrastructure and housing growth and seek agreements to repay fund the work from linked Council Tax, Business Rates growth and additional New Homes Bonus Scheme grant.

Summary
The 4 year capital programme 2018-22 totals £289m. External funding from capital grants, section 106 agreements and third party contributions totals £175m. Without this funding being available schemes of any significant size would not be affordable by the County Council.

Discretionary Funding

The discretionary capital programme totals £114m for the period 2018-22. Funding is from the sale of County Council capital assets (capital receipts), MTFS revenue contributions or surplus earmarked funds. Discretionary funding can also include prudential funding, which is unsupported by central government with the costs of financing borrowing undertaken falling on the County Councils revenue budget.

Capital receipts
Property Services are responsible for identifying additional capital receipts and maximising the sale value of surplus assets. Property Services will seek opportunities to maximise the value of surplus land, for instance by obtaining planning permission. The targets for new capital receipts to fund the 2018-22 capital programme, are:

2018/19.	E13.1m
2019/20	£5.0m
2020/21	£1.5m
2021/22	£1.5m
Total	E21.1m

The estimates are higher in the earlier years reflecting the increased confidence in the sale of those assets. The targets will need adjusting to reflect shortfalls in previous years (if applicable) and any new spend to save or linked projects where funding for expenditure is advanced on the condition that future receipts are generated to fund the expenditure.

Revenue Funding
The capital programme 2018-22 includes a total of £85m in MTFS revenue funding of capital and surplus earmarked capital receipts.

On-going revenue - £2m is allocated in the MTFS.

One-off revenue - £83m is allocated in the MTFS. These have arisen from past:

- Opportunities from underspends — cannot be relied upon going forward.
- MTFS risk contingency
- Surplus earmarked funds no longer required

Other Earmarked Funds
These include earmarked capital receipts, surplus capital receipts from prior years and funds repaid under the Local Authority Mortgage Scheme (LAMS) and total £8m over the 2018-22 capital programme.

By using the funding available, the discretionary capital programme can be funded without any new borrowing.

If new unavoidable items or spend to save are identified during the MTFS, options to increase capital receipts and identify further revenue funding will be reviewed first. If these are not available then prudential borrowing will be considered, subject to the prudential indicators. In considering prudential borrowing using internal cash balances will be prioritised over raising new external loans. This has the advantage of avoiding debt interest payments which are expected to exceed current interest rates.

For invest to save schemes, a discount rate of 5% will be used (3.5% for energy projects) as part of the net present value assessment in the business case. Only projects that show a positive return using these rates will be considered for inclusion in the capital programme.

Affordabilit

The impact of the discretionary programme on the revenue budget, and forecast at the end of the **MTFS** is:

£m	2013/14	2014/15	2015/16	2016/17	2017/18	2021/22
Revenue	1.7	1.7	1.7	1.7	1.7	1.7
MRP	13.6	12.7	12.0	11.4	10.8	6.5
Interest	12.0	11.9	12.0	12.1	12.0	12.8
On-going revenue Total	**27.3**	**26.3**	**25.7**	**25.2**	**24.5**	**21.0**
% Revenue budget	7.7%	7.5%	7.4%	7.3%	7.0%	5.8%
Voluntary MRP	8.4	6.4	2.9	4.5	0.0	0.0
One-off revenue	17.0	8.4	6.1	8.8	16.1	0.0
One-off revenue	**25.4**	**14.8**	**9.0**	**13.3**	**16.1**	**0.0**
Total	**52.7**	**41.1**	**34.7**	**38.5**	**40.6**	**21.0**
% Revenue budget	14.8%	11.7%	9.9%	11.1%	11.7%	5.8%

To ensure the discretionary programme remains affordable the following approach is taken to manage the MRP and interest charges:

- No new borrowing to finance capital expenditure (last time was in 2012).
- Where new borrowing is needed to use temporary internal balances from the overall council cash balances in advance of their designated use.
- Review opportunities to repay debt.
- Re-profile MRP to be commensurate with the average age of assets funded from borrowing and delay the impact on the revenue budget. This is planned from 2020/21. It should be noted that this does not reduce the amount to be set aside but simply delays the period over which it is to be paid.

By 2021/22 by taking the above actions it is forecast to reduce the on-going revenue charge to £21.0m (5.8% of the revenue budget). By the end of the MTFS the annual cost will have been reduced by £6.3m, reducing the need for service reductions.

Capital Financing Requirement (Borrowing)

The Councils borrowing requirement is contained with the Capital Financing Requirement (CFR). The CFR is the measure of the Council's historic need to borrow for capital purposes. As at 31st March 2018 the CFR is forecast to be £257m compared with actual debt of £265m. The difference is a temporary 'over-borrowed' position pending future scheduled debt repayments and opportunities to repay debt early. The current cost of borrowing is £22.8m per annum in financing costs (external interest and MRP) which is met from the revenue budget. Where prudential borrowing is approved this would have the effect of increasing the CFR. As the CFR exceeds actual debt borrowed, if the Council was to undertake new prudential borrowing it would review options to use internal working cash balances instead of taking out new external borrowing. Over the period of the MTFS the over-borrowed position is forecast to increase to £39m. The Prudential Indicators show the CFR remaining at £257m over the next four years to allow provision to potentially use part of the over borrowed position to provide flexibility to raise prudential borrowing (funded from internal borrowing) to fund future capital developments and the Corporate Asset Investment Fund if needed.

The detailed approach to this is covered in the Treasury Management Strategy, approved by the County Council annually in February.

Financial Management of the Capital Programme

Prioritising the Programme

The approach to compiling the capital programme is through a combination of service requirements developed by each relevant department, statutory requirements and asset management planning.

For land and building assets, Strategic Property, in conjunction with service areas, develops all the estate strategies, asset management plans and property elements of the corporate capital and revenue programmes. They seek to ensure that the County Council is making full use of all assets, and any under-performing or surplus assets are identified and dealt with by either their disposal or investment to improve their usage. Outcomes from condition survey information together with on-going reviews of the property portfolio feed into the capital programme and revenue budget. The Corporate Asset Management Plan, which promotes the rationalisation of property assets, reducing running costs and cost effective procurement of property and property services is reported annually to the Cabinet.

The County Council operates the Corporate Asset Investment Fund (CAIF) which invests in assets to achieve both economic development and investment returns. The CAIF operates through the Corporate Asset Investment Fund Strategy with a view to:

- Ensuring that there is a diverse range of properties available to meet the aims of economic development.
- Increasing the size of the portfolio.
- Improving the quality of land and property available.
- Ensuring the sustainability of the County Farms and Industrial portfolio by replacing land sold to generate capital receipts, and
- Providing a revenue income stream that can be used to support ongoing service delivery.

The fund has a notional target of achieving a holding of £200m. It is expected that this will be achieved within the next 5 years. Appraisal includes external due diligence performed before each purchase.

For highways and associated infrastructure needs, the Council's key transport policy document is the Local Transport Plan. This provides the long term strategy within which the Council manages and maintains its network. In light of the continuing financial challenge the Council's priority is only to add to the highway network where this will help to enable new housing and jobs. Furthermore, additions will normally be considered only in circumstances where specific external funding can be secured to achieve this.

Further improvements to the highway network will require continued pursuit of external resources such as Government grants and developer funding. Government grants include bids to funds including Growth Fund (through the LLEP), the Growth and Housing Fund, the National Productivity Investment Fund, Local Authorities Majors Fund and the Housing Investment Fund. In order to maximise the impact of funding that can be secured for improvements, the County Council is doing more to define the roles of the various elements of the road network so that it is able to target investment where it will be of most benefit, particularly in terms of supporting economic prosperity and growth.

Bids for funding from the discretionary programme require the completion of a capital appraisal form for each project. The forms collate detailed information on the proposed project including justification against strategic outcomes, service objectives, statutory requirements and/or asset management planning, timelines, detailed costings including revenue consequences of the capital investment, and risks to delivery. All bids for land and building projects are also supplemented by a Strategic Property scoping and assessment form. Bids are then prioritised and assessed against the discretionary funding available. The revenue costs and savings associated with approved capital projects are included in the revenue budget.

Where schemes have not yet been fully developed these are included as future developments in the capital programme. As schemes are developed they are assessed against the available resources and included in the capital programme as appropriate.

Financial Management of Delivery

The key risks to the delivery of the capital programme are overspending against the approved budget for a scheme, project/programme slippage where the project is not delivered in accordance within the planned timescales thereby delaying approval of the expected benefits, and delays in or non-receipt of external contributions towards the cost of the scheme.

To ensure that capital spending and the delivery of this strategy is effectively managed:

- Programmes being reviewed in light of the most up to date information around funding available and latest priorities.
- All schemes within the programme being monitored regularly, usually monthly.
- Financial progress being reported on a regular basis throughout the year and at year end to the Cabinet and Scrutiny Commission to update them on progress and any significant variations in costs.
- Projects part or wholly funded by external contributions being separately monitored to ensure compliance with any funding conditions applicable.
- All projects are assigned a project manager appropriate to the scale of the scheme.
- The procurement of projects within the capital programme following the Councils approved contract procedure rules and where applicable the Public Contract's Regulations 2015.

Risk Management

I Policy Statement and Strategy

Risk Management Policy Statement

1. Local government's purpose and relationships with its local stakeholders and partners, the UK Government and Europe, continue to be redefined. Continued austerity, future economic uncertainty, escalating costs of social care and pension liabilities, increased expectations alongside concerns about councils having the capacity and capability to respond, are creating a lasting change.

2. Local Authorities have no alternative but to understand and manage risk. Those Authorities which stimulate effective and efficient risk management and strive to create an environment of 'no surprises' should be in a stronger position to deliver objectives, sustain services, achieve better value for money, and promote good corporate governance both within the organisation itself and in tandem with stakeholders and partners. Successful risk management should balance a level of control to provide sufficient protection from harm, without stifling development and recognising and grasping opportunity, where calculated risk is accepted and even applauded. New layers of complexity and risk arise, but they open up new opportunities for innovation, collaboration, transformation, community engagement, and new approaches to service delivery. These include prevention and integration strategies, collaborating with communities and other partners, embracing digital technology, and investment in infrastructure to remain sustainable. Authorities are venturing more into commercial property and other income generating activities for the future prosperity of communities. Effective risk management is essential to assist decisions on whether the benefits of taking actions outweigh the risks.

3. Leicestershire County Council (the Council) remains one of the best performing councils in the country despite its very low funding position. The Council recently approved a revised Strategic Plan 2018-2022 (the Plan) which outlines the long-term vision for the organisation and the people and place of Leicestershire. The Plan is underpinned by other key policies and strategies including the Council's Medium Term Financial Strategy and Transformation Programme. The Plan recognises that the future remains uncertain, but brings with it challenges and exciting opportunities for all. The outcomes are aspirational and seek to outline the end results wanted for the people of Leicestershire.

4. Whilst ensuring that the most vulnerable are protected, in order to continue its own fundamental transformation, the Council will embrace an attitude to risk allowing a culture of creativity and innovation, in which in all areas of the business, risks are identified, understood and proactively managed, rather than avoided. Risk management is at the heart of the Council and its key partners. The Council will not shy away from risk but instead seek to proactively manage it. This will allow it to not only meet the needs of the community today, but also be prepared for future challenges.

5. This Risk Management Policy Statement and supporting documentation form an integrated framework that supports the Council in the effective management of its risk. In implementing the framework, the Council provides assurance to its stakeholders, partners and customers that a consistent identification, assessment, evaluation and management of risks and opportunities of those current, developing and as yet unplanned Council activities, plays a key role in the delivery and achievement of the vision contained in its Plan and all of its other plans, strategies and programmes.

6. This Policy has the full support of Members and Chief Officers, who are committed to embedding risk management throughout the Council and is reliant upon the co-operation and commitment of all management and employees to ensure that resources are utilised effectively.

John Sinnott, Chief Executive
11 January 2018

Leicestershire County Council Risk Management Strategy

1.0 Defining Risk and Risk Management

Under 15031000 'Risk management Principles and guidelines'

Risk is defined as:

'The effect of uncertainty on objectives, where effect is any deviation from the expected — positive or negative'

Risk Management is defined as.

Coordinated activities to direct and control an organisation with regards to risk

The Council has adopted the following definitions of risk and risk management:

Risk is "an uncertain event (or a set of events) that should it (they) occur, will have a (positive or negative) effect on the achievement of the Council's objectives and/or reputation.

A risk is measured in terms of a combination of the likelihood of a perceived threat or an opportunity occurring and the magnitude of its impact on objectives.

Risk management is the "systematic application of principles, approach and processes to the identification, assessment and monitoring of risks." By managing our risk process effectively we will be in a better position to safeguard against potential threats and exploit potential opportunities to improve services and provide better value **for** money.

This Risk Management Strategy outlines how Leicestershire County Council (the Council) will use risk management to successfully deliver corporate, departmental and service, objectives and priorities.

2.0 Why undertake risk management?

Statutory requirements

Part 2 of the Accounts and Audit Regulations 2015 (Internal Control) places explicit requirements on the Council around risk, that is: -

- Paragraph 3 (c) - the Council must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk;
- Paragraph **4.4 (a -** iii) — the Chief Financial Officer must determine, on behalf **of** the Council financial control systems which must include measures to ensure that risk is appropriately managed;
- Paragraph 5 (1) the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management processes.

Constitutional requirements

The Council's Corporate Governance Committee has delegated functions[1] regarding risk management namely: -

- the promotion and maintenance within the Authority of high standards in relation to the operation of the Council's Local Code of Corporate Governance[2] and in particular to ensure that an adequate risk management framework and associated control environment is in place;
- to monitor the arrangements for the identification, monitoring and management of strategic and operational risk within the Council.

[1] These align to the oversight of risk management arrangements as being a core function of a local government Audit Committee as referred to in CIPFA's Guidance on Audit Committees 2013. Revised guidance is due in early 2018 and this will lead to a review of the Corporate Governance Committee's functions regarding risk management,

[2] The Council's Local Code of Corporate Governance (2017) complies with the 'Delivering Good Governance in Local Government; Framework' (2016), specifically Principle F which advises that good governance is promoted when there is management of risks and performance through robust internal control and strong public financial management.

3.0 Benefits of risk management

Risk management is a tool that forms part of the governance system of the organisation. When applied appropriately it can bring multiple benefits as demonstrated in the table below: -

Improved efficiency of operations	Better delivery of intended outcomes	Maximises Opportunities
Protected reputation of the Council	Supports the achievement of the Council's objectives	Reduced losses arising from workplace accidents and illnesses
Better mitigation of key risks	Demonstrates good governance	Enhanced political and community support
Protection of budgets from unexpected financial losses or increased ability to secure funding, fraud and corruption	Increased effectiveness of business change programmes and projects	Protection of Council Assets
Fewer unwelcome surprises	Improved management information to inform decision making	Improved planning

4.0 Risk Management Strategy Objectives

The objectives of the Council's Risk Management Strategy are to:

- Integrate risk management fully into the culture of the Council and into its corporate and service planning processes;
- Improve the framework for identifying, assessing, controlling, reviewing and reporting and communicating risks across the Council;
- Improve the communication of the Council's approach to risk management;
- Improve the coordination of risk management activity across the Council;
- Ensure that the Corporate Management Team (CMT), Corporate Governance Committee and external stakeholders can obtain necessary assurance that the Council is mitigating the risks of not achieving key priorities and thus complying with corporate governance practice;
- Manage risk in accordance with best practice and ensure compliance with statutory requirements;
- Maintain clear roles, responsibility and reporting lines for risk management within the Council;
- Measure and partake in regular comparison and benchmarking activity.

5.0 Risk Appetite and Risk Tolerance

The Council recognises that only by taking risks can it achieve its aims and deliver beneficial outcomes to its stakeholders.

The Institute of Risk Management (IRM) defines risk appetite as "the amount of risk an organisation is willing to seek or accept in the pursuit of its long term objectives" and is about looking at both the propensity to take risk; and the propensity to exercise control. Risk tolerance is defined as the boundaries of risk taking outside of which the organisation is not prepared to venture in the pursuit of its long term objectives.

Risk appetite and risk tolerance help an organisation determine what high, medium and low risk is. In deciding this, the organisation can:

- More effectively prioritise risks for mitigatioh
- Better allocate resources
- Demonstrate consistent and more robust decision making
- Clarify the thresholds above which risks need to be escalated in order that they are brought to the attention of senior management and/or Members.

Corporate Management Team has collectively agreed that the Council exists in a high risk environment and that this is likely to continue. In reality this will mean continuing to develop an understanding of acceptable risk levels (high, medium or low), depending on their impact and likelihood. Defining levels allows risks to be prioritised and appropriate actions assigned so that the management of identified risks will be proportionate to the decision being made, or the size of the impact on service delivery.

The Council will take risks in a controlled manner, reducing exposure to a level deemed acceptable. In order to take advantage of opportunities, the Council will support innovation and the imaginative use of resources. However, the Council will seek to control all highly probable risks which have the potential to:

- Cause significant harm to service users, staff and the public;
- Severely compromise the Council's reputation;

- Significantly impact on finances;
- Jeopardise the Council's ability to undertake it's core purpose;
- Threaten the Council's compliance with law and regulation
- Create opportunity for fraud and corruption

Taking the above into consideration, the Council's current **overall** risk appetite is defined as **'Open'.** This means that the Council is prepared to consider all delivery options and select those with the highest probability of productive outcomes even where there are elevated levels of associated risk. However, the Council's risk appetite is determined by individual circumstances. There will be areas where greater risk will be taken in supporting innovation in service delivery. These occasions will be offset by times when it maintains a lower than cautious appetite for example, in matters of compliance with law and public confidence in the Council. Risk appetite can therefore be varied for specific risks, provided this is approved by appropriate officers and/or Members.

The Council will review risk appetite and tolerance annually to ensure risks are being managed adequately. Please refer to Annexes 1 and 2 for further details.

6.0 Risk Management Maturity

All organisations are on a risk management journey with differing levels of risk management maturity. Risk management maturity refers to how well established risk management is as a discipline across the organisation.

We continue to review our current risk management capability to help us direct our resources in the areas that need improvement and further development, ensuring the risk management arrangements remain fit for purpose in this changing environment.

The Association of Local Authority Risk Managers (ALARM) has developed and published a National Performance Model for Risk Management in Public Services to illustrate what good risk management looks like in a public service organisation. There are 5 levels.

Awareness **Happening \, Workin** **Embeded & Integrated** **Driving**

A detailed maturity review[1] was last undertaken and reported in January 2015. This scored the Council's level of risk maturity as between levels 3 ("Working") and 4 ("Embedded and Working"). A number of recommendations were made to further develop risk management processes and an action plan was produced to address the recommendations.

During 2016 and 2017, significant progress was made to implement the recommendations. Nevertheless, the maturity level remained at Level 3/4 — Between Working and Embedded & Working and further development is necessary in some of the core areas. See Action Plan in Annex 4.

The Council also networks and shares information with other similar organisations e.g. East Midland Counties Risk Management Group (7 County Councils) which enables the Council to benchmark its position.

Although the Council planned to evaluate its risk maturity against ALARM guidance on a three-yearly frequency (maximum[2]) with the next review planned for December 2017 this will be undertaken in 2018.

1. Undertaken using the ALARM Performance Model by a Senior Internal Auditor not routinely involved in the Council's risk management framework, reporting to the Finance Manager within Strategic Finance to directly avoid any conflict of interests.

2. CMT will have the opportunity at each annual policy review to determine if, because of future events, the td-annual risk maturity assessment should be more frequent.

7:3 liGin sGoa PrECGM

Risk management is a continual process involving the identification and assessment of risks, prioritisation of them and the implementation of actions to mitigate both the likelihood of them occurring and the impact if they did.The Council's approach to risk management will be proportionate to the decision being made or the impact of the risk, to enable the Council to manage risks in a consistent manner, at all levels.

Explanations of the stages within the risk management process:

Identify risk	Clarify Objective(s) and Priorities from the Council's Departmental Service Planning process and identify risks (or opportunities) which might prevent, delay (or alternatively escalate) achievement of the Council's objectives and determine what are the consequences if this occurs
Assess risk	Assess the inherent risk (Impact & Likelihood) using the Council's risk assessment criteria prior to the application of any existing/known controls i e evaluate the "Original risk score" Decide and agree the course of action — treat, tolerate, transfer, terminate or take the opportunity
Manage risk	Identification and assessment of the controls/actions already in place to mitigate each risk to arrive at the "Current Risk score" If Current Risk score is still high even with controls • Is the score correct? • Determine the best way to manage the risks e.g terminate, treat, transfer, tolerate or take the opportunity Determine whether the cost of implementing further mitigating control is merited when compared to the risk reduction benefits achieved. Development of further SMART actions and assign target dates and responsible officers to achieve the desired "Target Risk score"
Monitor, Review and Report	Use the Risk Management Matrix and Risk Tolerance levels to determine the frequency of review, monitoring, risk escalation and reporting

Annex 2 provides details of the risk measurement criteria, risk map, risk escalation and reporting arrangements.

8.0 Application - Service, Department, Corporate & Specialist Risks

It is essential that risk management is used as a tool to assist good management and to provide assurances to relevant stakeholders that adequate measures have been taken to manage risks. To support this, risk management has been integrated into the planning process. By using the risk methodology, key risks facing the Council or a particular service area will be identified and managed. The escalation of risks ensures that Senior Management has a clearer picture on risks facing service areas. This helps in overall decision making processes by allowing the allocation of resources or review of areas of concern.

Emerging Risks

There is an established framework in which consistent application of the process should ensure the flow of appropriate risk information across the Council as follows:

Service and Department Risks:

Services will undertake a risk identification exercise at least annually, as part of service planning. This will include:

- Risks to achieving objectives identified and assessed by managers at service/division area level; this should also include business as usual risks;
- Assessment will identify the risks to be managed within the service/division area and those that may need to be escalated to the next level i.e. Department Risk Register;
- Development of the Department Risk Register including:

  Department specific risks linked to objectives and priorities

  Business as usual risks (key system/activities)

  Risks that may have been escalated up from service areas

  - Relevant risks from programmes, projects and partnerships
  - Risks from specialist areas e.g. Health & Safety, Insurance and Business Continuity
  - Any department horizon scanning of emerging risks

  In line with the framework, (risk matrix and risk tolerance levels), key risks should be escalated and reported to Departmental Management Team (DMT) regularly, setting clear accountability for managing risks and undertaking further actions/additional controls within the defined timescales;

- Review of department registers to identify continuing 'high scoring' risks for escalation to the Corporate Risk Register (CRR) either individually or consolidated with other risks;
- This exercise will provide senior managers with a central record of departmental risks, with a clear audit trail of where the risk originates from and also provide assurance that risks are being managed.

Corporate (and high ranking Departmental) risks - Corporate Risk Register

This process will provide Directors and Members with a central record of corporate risks, to ensure consideration is given to high ranking, strategic cross cutting (or Departmental) risks that could impact the financial, political or reputational arena process followed:

- **Each qUarter, Departmental Risk Champions and management teams will review Department Registers to identify and consider risks for escalation to the CRR, either individually or consolidated from Departmental Risk Registers;**
- **Internal Audit Service will confirm that the quarterly reviews have been consistently undertaken, and co-ordinate the production and reporting of the CRR, through to Corporate Management Team (CMT) and Corporate Governance Committee.**
- **Whilst most risks are expected to come through this route it might not capture all of the strategic risks facing the Council. Therefore horizon scanning, information from relevant publications and minutes from key meetings will also provide a basis for including additional risks on the CRR.**

Specialist areas of risk

Project. Programme and Partnership Risks

Risks which could impact on achieving the objectives of projects, programmes or partnerships will be managed through the appropriate Project, Programme or Partnership Board and associated governance structures. However, where Project, Programme or Partnership risks impact upon strategic or departmental objectives then consideration should be given as to whether those risks should be identified, assessed and escalated to the appropriate Departmental or CRR. In the **case of Projects and Programmes, the decision to escalate to a departmental or corporate level, is ultimately the responsibility of the relevant Senior Responsible Officer (SRO)** or Sponsor, supported **by the** appropriate Project, Programme or **Partnership Board.**

When a project or programme is closed, the relevant closure report should identify any risks (or issues) that need to **transfer to** Business **As Usual (BAU) ensuring** specific and appropriate ownership is identified and clearly **articulated.** Where **appropriate these risks may** need to be escalated to the relevant Departmental **or CRR.**

All projects report regularly to Project Boards on project level risks and issues, with **any programme level** risks and issues escalated and reported on a regular basis to the Transformation Delivery Board.

Health, Safety & Wellbeing Risks

The Health, Safety & Wellbeing Service provides advice and guidance to managers and staff on all aspects **of Health, Safety and Wellbeing.**

In addition to providing advice and support, the Health, Safety & Wellbeing Service also help to monitor the performance of the organisation through audits and inspections, set targets for continual improvement, provide operational training and awareness for staff and also respond to accidents / incidents in order to ensure they are adequately investigated and the likelihood **of further harm is reduced.**

Regular reports are provided to the Departmental Management Teams, Chief Executive and the relevant Scrutiny Board. A separate risk assessment process is **in place.**

Resilience and Business Continuity

Business Continuity Management (BCM) is complementary to a risk management framework that sets out to understand the risks to the council, and the consequences of those risks.

By focusing on the impact of disruption, BCM identifies the services which the council must deliver, and can identify what is required for the council to continue to meet its obligations. Through BCM, the council can recognise what needs to be done before an incident occurs to protect its people, premises, technology, information, supply chain, stakeholders, reputation and importantly the services that the council delivers to the people of Leicestershire. With that recognition, the Council can then take a realistic view on the responses that are likely to be needed as and when a disruption occurs, so that it can be confident that it will manage any consequences without unacceptable delay in delivering its services.

The Resilience and Business Continuity Team co-ordinates the preparation of business continuity and response plans both at a corporate and departmental level. Such plans aim to minimise the likelihood and/or impact of a business interruption by identifying and prioritising critical functions as well as the resource requirements, roles and responsibility requirements in response to allow appropriate planning to take place.

The Resilience and Business Continuity Team presents an annual report to Corporate Governance Committee.

Insurance

Insurance acts as a risk transfer mechanism which reduces the financial risk to the Council. The Council is largely self-insured but transfers the larger risks to an insurance company by contributing a premium. In the event of a financial loss, the Council is entitled to indemnity, subject to the terms and conditions that are in place.

The function provides a comprehensive and professional insurance service including arranging insurance provisions and other related insurance activities as well as managing new and outstanding claims.

Insurance activity will be regularly reported to Corporate Governance Committee.

Property and Occupants Risk Management

Following the tragic events of both the Grenfell Tower fire and high profile terrorism attacks during 2017, a group was established, initially to review fire safety risk across the Council's owned and procured properties, but has been widened to incorporate the Council's identification and management of terrorism risk. The group contains a wide breadth of representatives from the Council's services and has regular inputs from the Council's insurers, risk management partners and brokers and links to the emergency 'blue light' services.

The. Group will report to the Director of Corporate Resources (quarterly), CMT as and when required if a significant matter arises but also annually to note work undertaken, findings and progress and agree the next year's plan of work and annually to Corporate Governance Committee.

Counter Fraud

The Internal Audit Service undertakes a biennial Fraud Risk Assessment (FRA). This process, along with other intelligence received, for example the results of CIPFA's annual Fraud & Corruption Tracker, seeks to acknowledge the risk of fraud throughout the Council and is an integral step towards how countering the risk of fraud is developed and arranged. Scoring (impact and likelihood) is derived through discussions with individual service leads to give them the opportunity to consider whether scores remain reasonable or whether there have been any changes during the previous year that may lead to necessity to amend scores, e.g. national picture, known frauds, additional controls introduced, and increased or decreased metrics/ values.

Recognising fraud in this manner ensures there is a comprehensive understanding and knowledge about where potential fraud and bribery/corruption is more likely to occur and the scale of potential losses. This in turn will direct the Council's overall Anti-Fraud and Corruption Strategy and further allow the Council to direct counter-fraud resources accordingly. Consequently, this influences the internal audit annual planning process. Furthermore, it reiterates responsibility to service managers for managing fraud risk in their service areas.

Regular updates are provided to the Corporate Governance Committee on counter fraud and related initiatives.

Information & Technology (I&T) and Data Protection Risks

A safe and secure I&T infrastructure underpin the working of the Council, both technically and in terms of data protection. To support this, I&T Service holds and maintains its own divisional risk register which, where appropriate will feed through to the Departmental and Corporate Registers. Regarding data protection, the Policy and Assurance Team develop, maintain and monitor compliance with a wide range of policies designed to protect information and data

Support

The above process will be supported by the following:

- Ownership of risks (at appropriate levels) assigned to Directors, managers and partners, with clear roles, responsibilities and reporting lines within the Council;
- Incorporating risk management into corporate, service and business planning and strategic and partnership working;
- Use of the Risk Management Toolkit throughout the. Council;
- Providing relevant training on risk management to officers and Members of the Council that supports the development of wider competencies;
- Learning from best practice and continual improvement;
- Seeking best practice through inter-authority groups and other professional bodes e.g. the Association of Local Authority Risk Managers (ALARM).

9.0 Risk Management Roles and Responsibilities - structure

The following structure is unique to the Council and is influenced by its risk management maturity, resource capacities, skills sets, internal operations and existing operating structures. The Council's risk management framework aligns to existing structures and reporting lines.

Full details of risk management roles and responsibilities can be found in Annex 3.

Leadership

- Cabinet
- Lead Members
- CMT

Cabinet:
- Understands the key risks facing the Authority, determines the level of risk and ensures risk management (RM) is delivered to mitigate risks

Lead Members:
- Have responsibility for understanding the risks facing their areas of accountability and how these risks are being managed

CMT:

Manages the level of risk the Authority is prepared to accept
- Establishes a control environment in which risk can be effectively identified, assessed and managed
- Ensures progress against mitigating actions / controls for risks on the corporate risk register

Corporate

- Corporate Governance Committee (CGC)
- Corporate Risk Management Group (CRMG)

CGC:
- Ensures that an adequate risk management framework (RMF) and associated control environment is always in place

Monitor's the arrangements for the identification and management of strategic and operational risks

CRMG:
- Provides assurance that the RMF and its processes are effective
- Helps to deliver a consistent approach

Departmental

- DMT
- Service Managers
- Programme / Project I Partnership Boards
- Risk Champions

DMT:
- Ensure the RMF rs implemented in line with the Councils Risk Management Strategy, and guidance
- Takes full ownership of risks within their departmental risk register Agree risk mitigation actions, assign defined timescales and responsibilities — including any departmental risks that are also in the Corporate Risk Register (CRR)

Service Managers:
- Identify and take ownership of all risks that fall within their remit
- Provide assurance to DMT's that these risks are being managed effectively

Programme / Partnerships Specialist Areas:

Providing assurance that risks and their implications are managed effectively and escalated if appropnate

Risk Champions:
- Ensure consistent application of the RMF within their dept Provide support and challenge to DMT and Service Mgrs

Staff:

Responsibility for gaining an understanding of risks facing their area of accountability and how they are being managed

Report promptly perceived failures in existing control measures that could increase risk

Assurance Services

Risk Management function*
- Review and challenge risk actions
- Provide assurance that the flow of risk information throughout the Authority is working effectively
- Collates and co-ordinates, RM updates for reporting to CMT and CGG
- Arranges the review of RM maturity

Internal Audit function:
- Review and challenge the effectiveness of the RMF including controls in order to form an Independent opinion

Governance function:
- Review and provide assurance within the Annual Governance Statement that the Authority's Risk Management Policy, Strategy, Guidance and Toolkit are being implemented at all levels

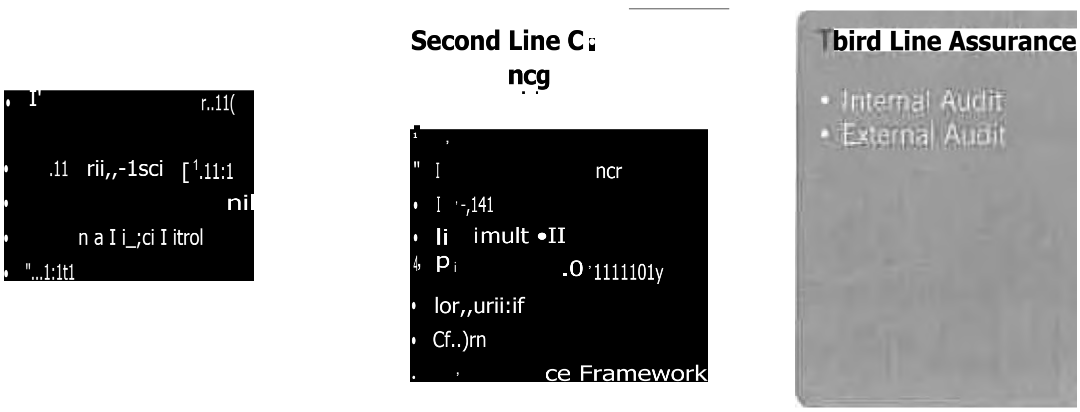
* The Head of Assurance Services (HAS) is responsible for the administration and development of, and reporting on, the Council's RMF For the purposes of the Public Sector Internal Audit Standards (PSIAS) the HAS futfils the required role of the Council's Head of Internal Audit Service The PSIAS require that this 'impairment' to independence and objectivity is recorded in the Internal Audit Charter (approved by CGC in November 2016) and (to avoid any conflict of interests) any audits of the RMF are overseen from a manager outside of the Service

10 Control Environment

This strategy outlines the roles and responsibilities, and governance framework for risk management within Council, demonstrating the arrangements for accountability and responsibility for risk management throughout the organisation. With particular focus on internal control, the Corporate Management Team and the Corporate Governance Committee are the organisation's oversight for risk management, providing check and challenge to the risk management strategy, process and delivery.

Developing, maintaining and reporting conformance with the Council's risk management framework is undertaken by Assurance Services to ensure the principles of good governance are adopted. Auditing of the risk management framework and risks is undertaken by the Council's Internal Audit Service in accordance with their audit plan and recommendations arising are fed back through the Departmental Management Teams to ensure continual improvement.

The Institute of Internal Auditors issued a report titled "the three lines of defence in effective risk management and control". This provides a model for clarifying response at both an operational and strategic level. Overall,.it provides scrutiny and challenge to ensure assurance is achieved.



First Line of Defence: Operational managers own and manage risks. They also are responsible for implementing corrective actions to address process and control deficiencies. There should be adequate managerial and supervisory controls in place to ensure compliance and to highlight control breakdown, inadequate processes, and unexpected events.

Second Line of Defence:Management establishes various compliance functions to help build and/or monitor the first line-of-defence controls. These functions are established to ensure the first line of defence is properly designed, in place, and operating as intended.

Third Line of Defence: Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls to Management and ultimately Corporate Governance Committee.

11 Continuous Improvement

Regulators and risk management professionals indicate that it is good practice to continuously improve risk management methodologies in line with recommendations from regular assessments and adapt to changing economic conditions.

To this effect, the Council's Risk Management Policy, Strategy, Guidance and related documents will be reviewed at the specified frequency or after the release of new legislation or government guidance that affects risk governance, internal controls, financial management or the regulatory regime for public service organisations. They will also be reviewed following the results of any audit /review by Internal Audit Service or an external third party.

Risk Appetite

STAKEHOLDERS

BOARD

[.

RISK APPETITE STATEMENT

What levels and types of risk do our stakeholders expect us to accept (and not acept) in pursuance of our goals?

EITHER

Generic (Cmpotale) frmk APpetite SWoment

OR

Individual Risk Appetite Statements are applied to each Objective

GENERIC (CORPORATE) RISK APPETITE STATEMENT TYPES

AVOID	No appetite. Not prepared to accept any risks.	Examples: Health &Safety, Business Critical systems, Customers, Safeguarding, Data Security,
AVERSE	Prepared to accept only the very lowest levels of risk, with the preference being for ultra-safe delivery options, while recognising that these will have lithe or no potential for reward/return.	
CAUTIOUS	Willing to accept some low risks, while maintaining an overall preference for safe delivery options despite the probability of these having mostly restricted potential for reward/return.	Examples: Delivery partners, Non- critical systems,
MODERATE	Tending always towards exposure to only modest levels of risk in order to achieve acceptable, but possibly unambitious outcomes.	
OPEN	Prenared to consIttet i11deiivery options and select ttto **with** the higriest.probattifityot **product** 'a outcomes **even when** there arp FAEvated ..1.5.wciated risk	Examples: Leadership; Devolution; Collaboration; Alternative delivery models; Integration; Transformation; Digital; Commercial trading, Property investment, Suppliers; People etc.
HUNGRY	Eager to seek original/creative/pioneering delivery options and to accept the associated substantial risk levels in order to secure successful outcomes and meaningful reward/return.	

Risk Impact Measurement Criteria

Scale	Description	Departmental Service Plan	Internal Operations	People	Reputation	Financial per annum / per loss
1	Negligible	Lithe impact to objectives in service plan	Limited disruption to operations and service quality satisfactory	Minor injuries	Public concern restricted to local complaints	<£50k
2	Minor	Minor impact to service as objectives in service plan are not met	Short term disruption to operations resulting in a minor adverse impact on partnerships and minimal reduction in service quality	Minor Injury to those in the Council's care	Minor adverse local / public / media attention and complaints	£50k-£250k Minimal effect on budget/cost
3	Moderate	Considerable fall in service as objectives in service plan are not met	Sustained moderate level disruption to operations / Relevant partnership relationships strained / Service quality not satisfactory	Potential for minor physical injuries / Stressful expenence	Adverse local media public attention	£250k - £500k Small increase on budget/cost Handled within the
4	Major	Major impact to services as objectives in service plan are not met	Serious disruption to operations with relationships in major partnerships affected / Service quality not acceptable with adverse impact on front line services Significant disruption of core activities Key targets missed	Exposure to dangerous conditions creating potential for serious physical or mental harm	Serious negative regional criticism, with some national coverage	£500-£750k Significant increase in budget/ cost Service budgets exceeded
5	Very High/ Critical	Significant fall/failure in service as objectives in service plan are not met	Long term serious interruption to operations / Major partnerships under threat / Service quality not acceptable with impact on front line services	Exposure to dangerous conditions leading to potential loss of life or permanent physical/mental damage Life threatening or multiple serious injuries	Prolonged regional and national condemnation, with serious damage to the reputation of the organisation i e front-page headlines, TV Possible criminal, or high profile, civil action against the Council, members or officers	>£750k Large increase on budget/cost Impact on whole council

Risk Likelihood Measurement Criteria

Rating Scale	Likelihood	Example of Loss/Event Frequency	Probability %
1	Very rare/unlikely	EXCEPTIONAL event This will probably never happen/ recur	<20%
2	Unlikely	Event NOT EXPECTED Do not expect it to happen/recur, but it is possible it may do so	20-40%
3	Possible	LITTLE LIKELIHOOD of event occurring It might happen or recur occasionally	40-60%
4	Probable /Likely	Event is MORE THAN LIKELY to occur Will probably happen/recur, but it is not a persisting issue	60-80%
5	Almost Certain	Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently	>80%

Risk Scoring Matrix

IMPACT					
5 Very High/Critical	5	10	15	20	25
4 Major	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Minor	2			8	
Negligible	1				
		2	3	4	5
	Very Rare/ Unlikely	Unlikely	Possible	Probable/ Likely	Almost certain

Likelihood*

***(Likelihood of risk occurring over lifetime of objective (i.e. 12 months).**

Risk Tolerance/Reporting Criteria

Tolerance Levels	Original / Current Risk Score	Expected Actions by Risk and Action Owners	
White	'I to 2	Controls	No action required
		Monitoring =	No action required
		Escalation =	No action required
Low	3 to 6	Accept Risk or Maintain Controls	Existing controls may be sufficient, No additional controls are leouired unless they can be implemented at very low cost (in terms of time_ money and effort), Actions to further reduce these risks are assigned low priority.
		Monitoring	Review six monthly (Reporting to Service Area
		Esc.ala t ion =	Service Area manager
Medium	**8 to 12**	**Maintain Controls or Further Controls to reduce rating**	**Controls required but consider in light of 4 Ts- Consideration should be as to whether the risks can be lowered, where applicable, to a tolerable level, but the costs of additional risk reduction measures should be taken into account (time, money and effort).**
		Monitonng	**Continued Proactive Monitoring/Review at quarterly / Reporting to DMT**
		Escalation =	**Business Partners / Relevant AD / DMT**
High	**15 to 25**	Further Acta ni Controls to reduce rating	Controls arid ludller actions necessary, Substantial effoi ts should be made to reduce the risk. Arrangements should be made to insure that existing controls are mainlained, The risk reduction measures should be implemented within a defined tirne period.
		Monitoring =-	Continued Proactive Cruarterhy Monitoring Report to CGC
		Escalation =	Chief LThicet civil Lead Member

A Departmental risk with a current risk score of 15 or more **must** be escalated into CMT's domain (either as an addition to the CRR, or as an emerging risk for further debate). Directors should not retain any risks with a current risk score of 15 or more in their Department's register without debate and approval from CMT.

Risk Management Roles & Responsibilities — Detail

Leadership:

Cabinet

Understands the key risks facing the Council, determines the level of risk and ensures risk management is delivered to mitigate risks by:

- Ensuring that a risk management framework has been established and embedded;
- Approving the Council's Risk Management Policy and Strategy as part of the Medium Term Financial Strategy;
- Ensuring relevant risk considerations (if relevant) are included within reports which may have significant strategic policy or operational implications.

Lead Members

- Responsibility for gaining an understanding of the risks facing their area of accountability (in conjunction with the relevant Director) and how these risks are being managed.

Corporate Management Team (CMT)

Leading and ensuring effective management, monitoring and review of risk management across the Council by:

- Establishing a control environment and culture in which risk can be effectively assessed and managed;
- Directing the level of risk the Council is prepared to accept (appetite and tolerance levels);
- Encouraging the promotion of risk awareness, rather than risk avoidance;
- Reviewing and, approving the Council's corporate and strategic risks on the CRR quarterly and their importance against the Council's vision and priorities;
- Assisting with the identification of significant new and emerging risks as they become known - for consideration and addition to the CRR;
- Following the review and approval of the CRR, CMT to determine whether a potential reputation or consultation matter needs to be forwarded to the Communication Unit;
- Providing challenge to the risk scoring mechanism to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control) ;
- Ensuring that risk assessments (if appropriate) are detailed in Cabinet or Scrutiny reports upon which decisions are based;
- Reviewing annually the Council's Risk Management Policy and Strategy.

Corporate:

Corporate Governance Committee **(CGC)**

Provides assurance for the Council that risk management is undertaken and effective by:

- **Reviewing the effectiveness of the risk management and internal control framework;**
- **Reviewing the Council's Risk Management Strategy and how it is being implemented;**
- **Receiving regular progress reports on the CRR and other risk management related initiatives;**
- **Reviewing, scrutinising and challenging the performance of the Council's risk management framework; including reviewing progress against planned actions from the previous quarter;**
- **Receiving** presentations on specific areas of risk;
- Receiving reports from Internal **and External Audit to determine the extent to which they indicate** weaknesses in control, **risk management and governance arrangements.**

Corporate **Risk Management Group** (via Departmental Risk Champion)

Provides **assurance that the risk management framework and its processes are working as intended and are effective by:**

- **Acting as the main contact for their department and its management on risk matters (including specialist risks (H&S, Insurance etc.);**
- **Representing their department at the Corporate Risk** Management **Group;**
- **Encouraging the promotion of risk awareness, rather than risk avoidance;**
- **Assisting in the implementation of any revisions to the risk management framework and promoting** use of **the Risk Management Toolkit;**
- **Providing support and training on risk management to Directors, Heads of Service and other managers within their service/department;**
- **Providing support to the other departments' Risk Champions;**
- **Maintaining on behalf of the service Directors and Heads, a departmental risk register that complies with corporate guidelines;**
- **Providing regular risk updates to DMT's as per the agreed reporting criteria and risk timetable;**
- **Providing challenge to the risk scoring mechanism to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control);**
- **Ensuring that corporate risk information and requirements are communicated to the Department;**
- **Assessing the relevance of corporate, other departmental service, programme, project and partnership risks and their impact on their department;**
- **Reviewing cross cutting risk areas where risks of one department impacts on the risks of another;**
- **Providing overview and scrutiny to the results of the Fraud Risk Assessment process, in relation to departmental risks;**
- **Providing regular updates to the Internal Audit Service for corporate risks to enable reporting to the CMT and Corporate Governance Committee;**

Departmental:

Departmental Management Teams (DMT)

Ensuring that risk management is implemented in line with the Council's Risk Management Strategy by:

- 'Appointing a Risk Champion /Representative for the department and authorising him/her to progress effective risk management that adheres to corporate guidelines, across their services;
- Ensuring that risk management is integrated within the annual service planning process;
- Taking full ownership of risks within their departmental risk register and agreeing risk mitigation actions, with defined timescales and responsibilities — including those departmental risks that are also in the CRR;
- Reviewing and challenging risk registers for their Service Areas on a quarterly basis if appropriate;
- Adhering to the corporate risk reporting timetable so that DMT meetings and risk monitoring tasks are aligned;
- Ensuring that the CRR accurately reflects only those key strategic risks facing the Council. The DMT scrutiny process should encompass a review of all departmentally identified corporate risks (new and those already identified), to critically evaluate the following:
  - Whether the risk is an ongoing corporate risk
  - Are all mitigating actions identified, they are SMART (i.e. Current Controls in place) and working adequately or are additional actions necessary.

    The Current Risk Score (Impact and Likelihood) is accurate and is not 'over-scored' in terms of likelihood particularly if a range of current controls have been identified as embedded and working adequately
  - Only consider any further actions/ additional controls after determining whether any cost of implementing further mitigating control is merited when compared to the risk reduction benefits achieved. If required, further actions should be SMART and record 'expected timeframe/due date' which should improve the robustness of the Target Risk impact and likelihood scores
- Receiving reports on risk management activity and review key risks regularly;
- Undertaking regular departmental horizon scanning for new or emerging risks, ensuring communication of these through appropriate channels and incorporation within the Departmental Risk Register if appropriate;
- Suggesting recommendations for the removal of current corporate risks that are considered as lower levels of risk;
- Taking ownership of identifying and managing project, partnership and business as usual risks effectively;
- Ensuring that risk management considerations are included in all Cabinet, Scrutiny and Regulatory bodies reports in respect of strategic policy decisions;
- Providing assurance on the effectiveness of risk management within their department as part of the Annual Governance Statement process;
- Following the review and approval of the Departmental Risk Register, DMTs to determine whether a potential reputation or consultation matter needs to be forwarded to Communication Unit.

Service Managers

Providing assurance to DMT's that risks within their service are being managed effectively by:

- Ensuring that risk management within their area of responsibility is implemented in line with the Council's Risk Management Strategy (i.e. identify, assess, manage and monitor);
- Managing risks on a day to day basis;
- Adhering to the risk scoring mechanism (original, current and target risk scores) outlined in the Strategy to ensure risks are managed to add value by aiming to achieve the balance between undermanaging risks (unaware and no control) and over-managing them (over-control)
- Communicating the results of their service risk assessment to the DMT via their Risk Champion, demonstrating effectiveness of controls in place to mitigate/reduce service risks;
- Managing risks from their areas of responsibility that have been included within the departmental risk register. Where further actions/ additional controls are necessary, ensure they are completed by the planned completion date;
- Identifying new and emerging risks or problems with managing known risks and escalating to the Risk Champion where appropriate;
- Assessing fraud risk within their service areas as part of the Fraud Risk Assessment process;
- Ensuring that they and their staff are aware of corporate requirements, seeking clarification from their Risk Champions when required;
- Identifying risk training needs of staff and informing this to Risk Champions;
- Using the Risk Management Toolkit and guidance.

Programme/Project/Partnerships

Providing assurance that project, programme and partnership risks and their impact are managed and communicated effectively by:

- Ensuring risk management, is a regular item on Partnership/ Programme/Project Board agendas;
- Reviewing and monitoring risks identified on programme/project/partnerships risks, ensuring that suitable controls are in place and working, or that plans are being drawn up to strengthen existing controls or put in place further controls;
- Identifying new and emerging risks or problems with managing known risks, ensuring communication of these through appropriate channels;
- Escalating appropriate Project, Programme or Partnership risks to the relevant Departmental or Corporate Risk Register where those risks may impact at a Departmental or Corporate level — ultimately the project or programme SRO/Sponsor is accountable for ensuring this happens;
- Ensuring any ongoing risks or issues identified at Project/Programme closure are transferred to the relevant business owner and where appropriate are escalated to Departmental or Corporate Risk Registers.

Risk Champions

- See Corporate section

- Taking responsibility for gaining an understanding of the risks facing their area of accountability;
- Report promptly perceived failures in existing control measures that could increase risk;
- Take due care to understand and comply with the risk management processes and guidelines of the Council.

Assurance Services:

Risk Management function (in conj nction with the Director of Corporate Resources):

Provide assurance that the flow of risk information throughout the Council is working and effective to produce and maintain the Corporate Risk Register by:

- Leading in the development and implementation of the risk management framework and promoting use of the Risk Management Toolkit;
- Meeting with departments as per the risk management timetable to review and challenge risk registers and emerging risks;
- Identify any potential future internal audit requirements to the Head of Assurance Services;
- Coordinating risk management activity across the Council with the support of Departmental Risk Champions/Representatives;
- Collating the changes to departmental risks and ensure that the Corporate Risk Register is amended to reflect current position;
- Regular horizon scanning (in conjunction with CMT, DMT Risk Champions and Head of Assurance Services) of information from relevant publications and minutes from key meetings to provide a basis for including additional risks on the Corporate Risk Register;
- Reporting progress on the Corporate Risk Register and other risk management related initiatives to the CMT, Corporate Governance Committee and Cabinet as per the risk management timetable;
- Supporting Departmental Risk Champions/Representatives in their risk management role;
- Communicating corporate risk management information and requirements;
- Reviewing the Risk Management Policy and Strategy at least annually to reflect best practice and initiate improvements;
- Arranging for the review of risk management maturity; benchmarking scrutiny and challenge
- Establishing links with external groups and organisations in order to gain knowledge and share best practice on risk management issues;
- Supporting the development and delivery of relevant risk training

Assurance function (Internal Audit Service)

Review and challenge the effectiveness of the risk management framework, providing independent assurance about the quality of controls that managers have in place, by:

- Creating a risk-based audit plan that is aligned wherever possible to the Corporate Risk Register and the Departmental Risk Registers and other drivers, e.g. biennial Fraud Risk Assessment;
- Testing and validating existing controls, with recommendations for improvement on identified control weaknesses;
- Reporting outcomes to Director and Corporate Governance Committee;
- Monitoring changing risk profiles based on audit work undertaken, to adapt future audit work to reflect these changes;
- Conduct relevant audits of the risk management framework and maturity but overseen by a manager independent to the Service.

Action Plan

This Strategy sets out the developments / actions the Council proposes over the short term future to further improve risk management maturity. These developments include the following actions: -

Action	Target Implementation Date	Complete
To review and revise the Council's Risk Management Policy and Strategy and related guidance with endorsement from Corporate Management Team and Corporate Governance Committee	Ongoing annually	Yes
Assist Update of Departmental Service Planning Guidance 2016/17 Alignment of Risk Registers to the Service Planning Process - 2017/18 To ensure risks recorded link back to departmental and service planning objectives	Ongoing	Yes
Update and communicate through Manager's Digest, the Council's Intranet Risk Management pages to include, Revised Risk Management Policy & Strategy All relevant guidance on methodologies and processes, including the revised Risk Assessment Criteria and Map Risk Management Toolkit containing the revised risk register templates with guidance Who to contact details of the risk management "network•', Links to further information and guidance e g ALARM web-site	February/March 2017	Partly Yes No No Yes No Develop in 2018/19
Provision of support to Departmental Risk Champions if necessary with the implementation of the revised Risk Register Template	Ongoing	Yes Ongoing
Develop and introduce key performance indicator(s) for risk management activity to maintain and improve the maturity rating	Ongoing	Partly — Developed dashboards on Tableau
Develop a training matrix to identify the levels of training that need to be attained by staff at different levels in the organisation Explore differing options E g Face to face, CIS, external training Explore the free training offering from the Council's Insurance providers - Gallagher Bassett's risk management consultancy service	Ongoing	Partly — face to face training and use of Councils insurers to deliver training
To ensure that risk management awareness is given adequate prominence in the Council's staff induction procedures	August 2017	No 2018/19
To develop an e-learning module on risk management and to promote its uptake by all relevant officers.	September 2017	No 2018/19
To liaise with Chief Executive's Department on any corporate guidance to ensure risks associated with partnerships are captured, particularly where the Council is the lead accountable body CIS to be updated accordingly	September 2017	No 2018/19
Maintain effective horizon scanning process and communication of new/ emerging risks to Risk Champions for assessment and consideration	Ongoing	Yes
Undertake risk maturity exercise in conjunction with other members of the East Midlands Risk Management Group	2017/18	Yes
Undertake Risk Maturity Assessment	2018/19	Summer 2018

EARMARKED FUNDS POLICY 2018119

General Fund

The level of the General Fund will reflect the overall financial environment and the key financial risks faced by the County Council. The amount held will be reviewed at least annually. Any funds in excess of the assessed amount will in the first instance be used to fund one off expenditure (capital and revenue including invest to save and pump priming initiatives) and secondly to support recurring revenue expenditure over the medium term, subject to the key consideration of sustainability.

Holding non earmarked funds is essential in enabling the County Council to manage unforeseen financial events without the need to make immediate offsetting savings. This allows better decisions to be made and reduce the impact this could have on users of County Council services.

Based on an assessment of risk, the target level for the General Fund is within the range of 4% to 5% of net expenditure (excluding schools). The forecast balance of £14.8m (4.1%), at 31st March 2018, is within that range. In reviewing the level of the General Fund the Cabinet will take advice from the Director of Corporate Resources.

Earmarked Funds

Earmarked funds are held for six main reasons. The key factors that determine their level are set out below:-

- Insurance fund — to meet the estimated cost of future claims not covered by insurance policies.
- Renewals — to enable services to plan and finance an effective programme of systems, equipment and vehicle replacement. These earmarked funds are a mechanism to smooth expenditure on asset replacement so that a sensible replacement programme can be achieved without the need to vary budgets.
- Trading accounts - in some instances surpluses in excess of the budgeted level are retained by the traded service for future investment.
- Other earmarked funds will be set up from time to time to meet predicted liabilities or unforeseen issues that arise.
- To support transformational and departmental change.
- Meet commitments made that will be incurred in the future. Examples include; completion of projects, County Council contributions to partnership funding, commitments in the MTFS such as the Capital Programme.

The Director of Finance has the authority to take decisions relating to the creation and management of earmarked funds.

Schools Earmarked Funds

Schools balances are held for two main reasons. Firstly, as a contingency against financial risks and secondly, to save to meet planned commitments in future years. Decisions on these funds are taken by individual schools.

Monitoring Policy

The level of earmarked funds and balances are monitored regularly throughout the year. Reports will be taken to members as part of the MTFS, an update in the autumn and at year end.

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2018/19

1. This strategy statement has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury. Management in the Public Services Code of Practice (the Code). Accordingly, the Council's Treasury Management Strategy will be approved annually by the full Council and there will be quarterly reports to the Corporate Governance Committee. The Corporate Governance Committee will consider the contents of Treasury Management Strategy Statement and Annual Investment Strategy at its meeting to be held on 29th January 2018. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

   The Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code:-

<table>
<tr><th>Area of Responsibility</th><th>Council/Committee/Officer</th><th>Frequency</th></tr>
<tr><td>Treasury Management Policy Statement</td><td>Full Council</td><td>Annually before start of financial year</td></tr>
<tr><td>Treasury Management Strategy/Annual Investment Strategy</td><td>Full Council</td><td>Annually before start of financial year</td></tr>
<tr><td>Quarterly treasury management updates</td><td>Corporate Governance Committee</td><td>Quarterly</td></tr>
<tr><td>Updates or revisions to Treasury Management Strategy/Annual Investment Strategy during year</td><td>Cabinet (following consideration by Corporate Governance Committee, wherever practical)</td><td>Ad hoc</td></tr>
<tr><td>Annual Treasury Outturn Report</td><td>Cabinet</td><td rowspan="2">Annually by end of September following year end</td></tr>
<tr><td>Treasury Management Practices</td><td>Director of Finance</td></tr>
<tr><td>Review of Treasury Management Strategy/Annual Investment Strategy</td><td>Corporate Governance Committee</td><td>Annually before start of financial year and before consideration by full Council, wherever practical</td></tr>
<tr><td>Review of Treasury Management Performance</td><td>Corporate Governance Committee</td><td>Annually by end of September following year end</td></tr>
</table>

Treasury Management Strategy 2018/19

2. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set its treasury strategy for borrowing and to prepare an Annual Investment strategy (as required by Investment Guidance issued subsequent to the Act) and this is included as paragraphs 27 - 46 of this strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2018/19 in respect of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Link Asset Services (formerly called Capita Asset Services).

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- the current treasury position
  the borrowing requirement
- Prudential and Treasury Indicators
- policy on borrowing in advance of need
  prospects for interest rates
- the borrowing strategy
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the Minimum Revenue Provision (MRP) strategy

Balanced Budget Requirement

3. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby the increase in charges to revenue from:-

i) increase in interest charges caused by increased borrowing to finance additional capital expenditure, and

ii) any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

Treasury Limits for 2018/19 to 2021/22

4. It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax level is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit" the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years. Details of the Authorised Limit can be found in annex 2 of this report.

Current Portfolio Position

5. The Council's treasury portfolio position at 31st December 2017 was:

		Principal £m	Average Rate
Fixed Rate Funding	PWLB	161.10	6.773
	Market	103.50	4.374
Other Long Term Liabilities		0.00	
		264.60	5.834
Total Investments		193.70	0.670
Net debt		70.90	

The market debt relates to structures referred to as LOBOs (Lenders Option, Borrowers Option), where the lender has certain dates when they can increase the interest rate payable and, if they do, the borrower has the option of accepting the new rate or repaying the loan. All of these LOBOs have passed the first opportunity for the lender to change the rate and as a result they are all classed as fixed rate funding, even though, in theory, the rate could change in the future.

Borrowing Requirement

6. It is not currently anticipated that the Council will take out any net new borrowing in the period covered by the Medium Term Financial Strategy (i.e. 2018/19 — 2021/22), and it is also expected that maturing loans will not be replaced. In recent years the Council has moved from a position of funding a reasonable proportion of its historic capital expenditure internally (i.e. by using cash resources that would otherwise be available to lend on money markets) at a cost

of the loss of interest that would otherwise have been earned, to the current position whereby external debt is greater than the Capital Financing Requirement.

7 There are a number of reasons that the Council is in an 'overborrowed' position but among them are the relatively small size of the capital programme in recent years and the lack of unsupported borrowing within it, a move by Central Government to switch capital approvals (which required external debt to be raised) to grants and the meaningful levels of voluntary Minimum Revenue Provision (MRP) that have been applied in recent years..

8. The table below shows how the Capital Financing Requirement is expected to change over the period of the MTFS, and how this compares to the expected level of external debt. Although the level of actual debt exceeds the Capital Financing Requirement and will increase further in future years it is currently prohibitively expensive to prematurely repay existing debt. If there are cost-effective opportunities to avoid, or reduce, an overborrowed position they will be considered as long as they are in the best long-term financial interests of the Council. This will probably require both short and long-term borrowing rates to increase meaningfully from their current level.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Opening Capital Financing Requirement	**256,920**	**246,534**	**236,543**	**230,069**
New Borrowing	0	0	0	0
Statutory Minimum Revenue Provision (MRP)	(10,386)	(9,991)	(6,474)	(6,476)
Voluntary MRP	0	0	0	0
Closing Capital Financing Requirement	**246,534**	**236,543**	**230,069**	**223,593**
Opening external debt	**264,600**	**264,100**	**263,600**	**263,100**
Loans maturing	(500)	(500)	(500)	(500)
Closing external debt	**264,100**	**263,600**	**263,100**	**262,600**
Overborrowed/(borrowing requirement)	**17,566**	**27,057**	**33,031**	**39,007**

It should be noted that from the 2020/21 financial year it is proposed to amend the method of calculating the MRP amount, which is part of the proposals for savings within the budget. Further detail on the change can be found in Annex 1 to this report.

Prudential and Treasury **Indicators** for 2018/19 — 2021/22

9. Prudential and Treasury Indicators (as set out in the tables in Annex 2 to this report) are relevant for the purpose of setting an integrated treasury management strategy.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management, and this was adopted in February 2010.

Prospects for Interest Rates

10. The Bank of England raised interest rates to 0.5u/o trom an all-time low of 0.25% in November 2017, which was the first increase in over 10 years. The Bank of England is very keen to give clear guidance to markets about the likely timing and extent of future base rate movements and there is currently an expectation of one further 0.25% increase in both 2018 and 2019.

11. Global economic growth has been relatively strong and, for the first time in many years, synchronised. The UK, whilst continuing to grow, is currently something of a laggard from a growth perspective and is likely to remain so whilst the significant Brexit-related doubts persist. It is likely that Central Banks will be returning monetary policy to more 'normal' operations in the near future — for some this will mean the withdrawal of quantitative easing and other forms of support before it feeds through into base rate rises. Given that the biggest risk to global growth is probably a policy error by Central Banks, it seems likely that they will be cautious in taking action and will wait for clear evidence of the need for it before any changes are made.

12. The range of forecasts produced by economists in respect of UK base rate rises is relatively narrow, with very few predicting meaningful increases in bank base rates over the next 2 — 3 years. There is, of course, a possibility that the negotiations over Brexit may prove easier or more difficult than is currently assumed, so there is the prospect of these expectations changing. It is, however, very difficult to foresee circumstances that do not involve base rates staying very low for the next few years.

Borrowing Strategy

13. The outlook for borrowing rates - which are linked to Government bond (gilt) yields — is difficult to predict. Gilt yields have risen steadily from the multi-generational lows reached in the wake of the Brexit vote, but they are still very low by historic standards. UK Gifts will react not only to the UK economic situation, but also to movements in global bond markets, and Governments/Central Banks are very wary of sharply rising bond yields because of the knock-on effect this is likely to have on to other investment markets and potentially the economy. Whilst most investors expect bond yields to continue to trend upwards at a controlled pace, any setback in economic growth (not just in the UK, but also globally) may cause bond yields to fall.

14. The biggest external factor that is likely to influence gilt yields is the likely expansion of government spending within the US. President Trump has so far been frustrated in many of his attempts to raise spending (particularly on infrastructure), but may ultimately be able to push his policies through. Increased infrastructure spend would lead to an increase in the supply of US Treasury Bonds, and potentially to an excess of supply over demand, which would place upward pressure onto yields and have a potential knock-on impact to government bond yields elsewhere. Bond yields react to numerous other factors, however, and movements in them often defy any supposition about how they will react to events.

15. Although borrowing from the Public Works Loans Board (PWLB) is still generally the most attractive external option available to the authority, the current overborrowed position makes the use of external borrowing unlikely. Even if the outlook for an overborrowed position changes, which is only likely if significant repayments of existing debt happens, the use of internal borrowing via available cash flows and balances (at a cost of the interest which would otherwise have been gained by lending the money to acceptable counterparties) is a more likely option.

16. Borrowing rates very rarely move in one direction without there being periods of volatility, and it is sensible to maintain a flexible and proactive stance towards when borrowing should be carried out (if, indeed, any borrowing is taken). Likewise it is sensible to retain flexibility over whether short, medium or long-term funding will be taken and whether some element of variable rate funding might be attractive. Any borrowing carried out will take into account the medium term costs and risks and will not be based on minimising short term costs if this is felt to compromise the medium term financial position of the Council.

External v Internal Borrowing

17. The Council currently has significant cash balances invested, and at the end of December 2017 these stood at £193.7m. These balances relate to a number of different items — earmarked funds, provisions, grants received in advance of expenditure, money invested on behalf of schools and simple cash flow are some of them. A growing source of cash balances relates to the overborrowed position outlined in paragraph 8. Without a significant increase in interest rates the overborrowing is forecast to grow to £160m by 2047. To avoid the value of this cash asset being eroded by inflation opportunities will be sought to improve the return received whilst keeping the risk to capital at a low level. Depending upon the investment approach chosen this could give rise to a requirement for internal borrowing. Therefore the Capital Financing Requirement indicator in Annex 2 is set at a level higher than the forecast requirement in paragraph 8, to provide capacity for internal borrowing.

18. The Council has, since January 2009, repaid almost £95m more of external loans than has been borrowed. There has also been no new borrowing to finance the capital programme over this period, and there is no longer any internal funding of the historic capital programme using other cash resources — in fact, the Council has more external borrowing than is required to fund the historic capital programme. In an ideal world action would be taken to ensure that an overborrowed position does not occur, but the reality is that this could only happen by the premature repayment of existing debt and this is currently not a cost-effective option. If an opportunity to repay debt occurs that is sensible from a financial perspective, it will be taken.

19. The balance between internal and external borrowing will be managed proactively, with the intention of minimising long-term financing costs. Short-term savings which involve undue risk in respect of long-term costs will not be considered.

Policy on borrowing in advance of need

20. **The Council will not borrow in advance of need simply to benefit from earning more interest on investing the cash than is being paid on the loan. If value for money can be demonstrated by borrowing in advance this option may be taken, but only if it is felt that the money can be invested securely until the cash is required.**

21 **In determining whether borrowing will be taken in advance of the need the Council will;**

- **ensure that there is a clear link between the capital programme and maturity profile of existing debt which supports taking financing in advance of need**
- **ensure that the revenue implications of the borrowing, and the impact on future plans and budgets have been considered**
- **evaluate the economic and market factors which might influence the manner and timing of any decision to borrow**
- **consider the merits (or otherwise) of other forms of funding**
- **consider a range of periods and repayment profiles for the borrowing.**

22. **The current position in respect of the level of actual borrowing in comparison to the Capital Financing Requirement, and a move by Central Government to replace borrowing approvals for capital projects with grants, makes it extremely unlikely that borrowing in advance of need will be used in the foreseeable future.**

Debt Rescheduling/Premature Debt Repayment

23. **Debt rescheduling usually involves the premature repayment of debt and its replacement with debt for a different period, to take advantage of differences in the interest rate yield curve. The repayment and replacement does not necessarily have to happen simultaneously, but would be expected to have occurred within a relatively short period of time.**

24. **If medium and long-term loan rates rise substantially in the coming years, there may be opportunities to adjust the portfolio to take advantage of lower rates in shorter periods. It is important that the debt portfolio is not managed to maximise short-term interest savings if this is felt to be overly risky, and a maturity profile that is overly focussed into a single year will be avoided. Changes in recent years to the way that PWLB rates are set, and the introduction of a significant gap between new borrowing costs and the rate used in calculating premia/discounts for premature debt repayments, significantly reduces the probability of debt rescheduling being attractive in the future.**

25. **If there is meaningful increase in medium and long-term premature repayment rates there is a possibility that premature repayment of existing debt (without any replacement) might become attractive, particularly given the current overborrowed position. This type of action would only be carried out if it was considered likely to be beneficial in the medium term.**

26. **All debt rescheduling or premature repayments will be reported to the Corporate Governance Committee at the earliest meeting following the action.**

Annual Investment Strategy

Investment Policy

27 The Council will have regard to the DCLG's Guidance on Local Authority Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA **TM** Code"). The Council's investment priorities are:-

- the security of capital and
- the liquidity of its investments

28. The Council will aim to achieve an optimal return on its investments that is commensurate with proper level of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. Borrowing money purely to invest or on-lend is unlawful and this Council will not engage in such activity.

29. The Council's policy in respect of deciding which counterparties are acceptable has always been stringent, and is one reason that the various financial organisations that have got into financial difficulties over the years (BCCI, Northern Rock, the Icelandic Banks etc.) have not been on the list of acceptable counterparties.

30. In broad terms the list of acceptable counterparties uses the list produced by Link Asset Services (the Council's treasury management advisor) but excludes any party that is included in the Link list with a maximum loan maturity period of 100 days or less. All counterparties are also restricted to a maximum loan period of one year. There are also other factors taken into account which dictate the maximum value of loans to any counterparty, together with limits on maximum exposure to all counterparties from the same country (with the exception of the UK, where there is no maximum country-level limit).

31. The combination of all these factors produces a counterparty list that comprises only very secure financial institutions, and a list that is managed pro-actively as new information is available. There are no recommended changes to the methods of compiling the counterparty list.

32. The investment instruments identified for use in the financial year are listed below. The limits for both maximum loan periods and amounts will be set in line with the criteria shown in annex 3. This list has changed from the one that was approved as part of the 2016/17 Annual Investment Strategy; the ability to invest in pooled private debt funds has been added (considered by Corporate Governance Committee and approved by Cabinet late in 2017), and the ability to invest in Money Market Funds (MMFs) has been expanded to take account of the fact that there will be changes to this sector of the market from July 2018.

33. At present the Council will only invest in MMFs that are classed as Constant Net Asset Value (CNAV); these are Funds in which the capital valuation of a unit will always be maintained at £1. From July 2018 only MMFs that maintain at least

99.5% of their assets in government backed assets will be able to classify themselves as CNAV Funds. The nature of the assets that these MMFs hold will mean that the returns available from them are unlikely to be attractive to the Council.

34. Low Volatility Net Asset Value (LVNAV) MMFs will be introduced and these Funds will be permitted to maintain the unit price at £1 as long as the net asset value does not deviate by more than 0.20% from this level — the current rules allow maintenance of a constant net asset value at a deviation of up to 0.5%. The MMFs currently utilised by the Council are unlikely to have any problem with the lower level of allowed deviation, and are expected to be reclassified as LVNAV.

35. Variable Net Asset Value (VNAV) MMFs already exist, and these Funds will value their units on .the basis of the underlying value of the assets that they hold; the unit price will not necessarily always be exactly £1. Investing in this type of MMF gives the possibility of a capital gain or loss when redeeming units, although the reality is that they almost always have a unit price which is very close to £1. The upside of this type of MMF is that they are allowed greater flexibility around the periods for which they can invest, and hence they tend to produce a noticeably better level of interest for the investor; the most obvious downside is the possibility of realising a capital loss.

36. While it is not currently considered likely that VNAV MMFs will be used for Treasury Management purposes, they have been added to the list. There may be circumstances whereby the additional income yield is considered more-than-sufficient compensation for the risk of a potential (but small) loss of capital. The 'Council also has sufficient cash resources that it is likely to be able to retain an investment in a VNAV MMF until such time as a redemption can be made without a capital loss. In the near term a 'watching brief will be kept on VNAV MMFs and no investment will be considered until such time as Officers are comfortable that the potential rewards outweigh the risks.

37. There is a requirement within the Annual Investment Strategy to state which of the approved methods of lending are specified, and which are non-specified. In broad terms a specified investment will be capable of repayment within one year and be made to a counterparty with a high credit rating; by implication non-specified investments are more risky than specified investments as they are either for longer periods of time or to lower-quality counterparties. Anything that does not meet either of these 'tests' is, by default, non-specified and must be highlighted as such within the Strategy. The long-term nature of the 'LOBO-offset' loan to Danske Bank means that it is non-specified investment, although the off-setting nature of the borrowing and the loan actually makes it low risk. Investment in pooled private debt funds is also non-specified, primarily due to the illiquid and medium-term nature of the investment.

Investment	Repayment within 12 months	Level of Security	Maximum Period	Maximum % of Portfolio or cash sum (1)
erm deposits witi) the Debt Management Office	Yes	Government-Backed	1 year	100
UK Government Treasury Bills	Yes	. Government-Backed	1 year	100
erm deposits with credit-rated institutions with maturities up to 1 ear*	Yes	cried acceptable relit ratings, but high security	1 year	100
erm deposits that are legally - pable of offset against existing LOBO borrowing that the Council has^	No	Varied, but off· setting nature of borrowing against oan gives a very low risk	20 years	25
Money Market Funds: onstant NAV Low Volatility NAV	Yes	At least as high as acceptable credit — rated banks	Daily, same-day redemptions and subscriptions	£125m (includes any investment in variable NAV MMFs)
ariable NAV Money Market Funds	Yes	At least as high as acceptable credit — rated banks	Same day subscriptions, 2 – 3 day redemption period	£125m (includes any investment in other MMFs)
Pooled private debt funds^	No	Diversification within pooled fund and historic loss rate suggests high security	Varies across funds — likely to be at least a three year investment period, followed by a further three years to redeem all loans	£40m
erm Deposits with UK Local a uthorities up to 1 year	Yes	A's do not have credit ratings, but high security	1 year	50
ertificates of Deposit with redit-rated institutions with maturities of up to ear	Yes	Varied acceptable credit ratings, but high securit	1 year	100

(1) **As the value of the investment portfolio is variable, limit applies at time of agreeing investment. Subsequent changes in the level of the portfolio will not be classed as a breach of any limits.**

^ **Non-specified investment**

* **For the sake of clarity, if a forward deal (one where the start of the investment is at some future date) is agreed, the maximum period commences on the first date of investment.**

Local Authority Mortgage Scheme

Under this scheme the Council has a current investment of £5m (@ 31/12/17), for a period of up to 5 years. This is classified as being a service investment, rather than a treasury management investment.

Leicestershire Local Enterprise Fund
Up to Elm has been made available for loans to small and medium-sized Leicestershire businesses via this Fund, which is administered by Funding Circle. This is classified as being a service investment, rather than a treasury management investment. This Fund is in the process of being wound-down as there is no longer evidence of financial support from the Council being required

Pooled property fund investment
As at the end of December 2017 £20m had been invested. A further £5m has been agreed for investment but transactions had not been entered into to action this. This is classified as a service investment, rather than a treasury management investment.

Creditworthiness policy

38. **The Council adopts the suggested counterparty list as produced by Link Asset Services, subject to a maximum one year loan period and the exclusion of any counterparty with a suggested maximum loan period of 100 days or less. Link's methodology includes the use of credit ratings from S & P, Fitch and Moody's, factors such as credit outlook reports from the credit rating agencies, the rating of the sovereign government in which the counterparty is domiciled and the level of Credit Default Swap spreads within the market (effectively the market cost of insuring against default). The general economic climate is also considered and will, on occasions, have an impact onto the list of suggested counterparties.**

39. **Link Asset Services issue very timely information in respect of changes to credit ratings or outlooks, and changes to their suggested counterparty list are also issued. These reports are monitored within a short time of receipt and any relevant changes to the counterparty list are actioned as quickly as is practical. A weekly summary of the credit ratings etc. of counterparties is also issued and this gives an opportunity to ensure that no important information has been missed.**

Country Limits

40. **The Capita criteria includes a requirement for the country of domicile of any counterparty to be very highly rated. This is a requirement on the basis that it will probably be the national government which will offer financial support to a failing bank, but the country must itself be financially able to afford the support. The Council's list of acceptable counterparties will include a limit on the maximum amount that can be invested in all counterparties domiciled in a single country (except for the UK) in order to mitigate sovereign risk.**

Investment Strategy

41. **The investment strategy shall be to only invest in those institutions and/or asset types that are included in the counterparty list, and only to lend up to the limit set for each counterparty. Periods for which loans are placed will take into account the outlook for interest rates and, to a lesser extent, the need to retain cash flows. There may be occasions when it is necessary to borrow to fund short-term cashflow issues, but there will generally be no deliberate intention to make regular borrowing necessary.**

Policy on the use of external service providers

42. External investment managers will not be used, except to the extent that a Money Market Fund or the managers of pooled property or private debt funds can be considered as an external manager.

43. The Council uses Link Asset Services as its external treasury management adviser, but recognises that responsibility for treasury management decisions remains with the organisation at all times. Undue reliance on our external advisers will be avoided, although the value of employing an external adviser and accessing specialist skills and resources is recognised.

Scheme of Delegation

44. (i) Full Council
- Approval of annual strategy
- Other matters where full Council approval is required under guidance or statutory requirement

(ii) Cabinet
- Approval of updates or revisions to strategy during the year
- Approval of Annual Treasury Outturn report

(iii) Corporate Governance Committee
- Mid-year treasury management updates (usually quarterly)
- Review of treasury management policy and procedures, including making recommendations to responsible body
- Scrutiny of Treasury Management Strategy/Annual Investment Strategy and Annual Treasury Outturn report.

(iv) Director of Finance
- Day-to-day management of treasury management, within agreed policy
- Appointment of external advisers, within existing Council procurement procedures

Role of Section 151 Officer

45. The Section 151 Officer is the Director of Finance, who has responsibility for the day-to-day running of the treasury management function.

Pension Fund Cash

46. This Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the County Council after 1st April 2010 will comply with the requirements of SI 2009 No 393.

ANNEX

ANNUAL STATEMENT FOR THE DETERMINATION OF THE ANNUAL MINIMUM REVENUE PROVISION (MRP)

Statutory regulations introduced in 2008 require local authorities to make prudent provision for the repayment of debt raised to finance capital expenditure. In addition a statement of the level of MRP has to be submitted to the County Council for approval before the start of the next financial year.

Prudent Provision.

The definition of what is prudent provision is determined by each local authority based on guidance rather than statutory regulation

It is proposed that provision is made on the following basis:

Government supported borrowing (through the formula grant system):

Retention of the pre 2003 arrangements whereby provision for repayment is based on 4% of outstanding debt (i.e. repayment over approximately 25 years) including an optional adjustment used in the transition to the new system in 2004 to avoid debt repayment being higher than under the previous system.

Prudential (unsupported) borrowing and expenditure capitalised by direction of the Secretary of State and certain other expenditure classified as capital incurred after 1st April 2008:

Provision to be based on the estimated life of the asset to be financed by that borrowing, with repayment by equal annual instalments.

The County Council will also look to take opportunities to use general underspends and one-off balances to make additional (voluntary) revenue provision where possible to reduce ongoing capital financing costs.

Financial Implications

MRP is a constituent of the Financing of Capital budget shown within Central Items component of the revenue budget and for 2018/19 totals £10.4m. This comprises £10m in respect of supported borrowing and £0.4m in respect of unsupported borrowing incurred since 2008/9.

The extent of unsupported borrowing required to finance the capital programme is not directly linked to any specific projects thus in determining the average life of assets an average of 25 years has been taken as proxy for the average life of assets contained within the discretionary component of the Capital Programme.

ANNEX 2

PRUDENTIAL AND TREASURY INDICATORS

In line with the requirements of the CIPFA Prudential Code for Capital Finance in local authorities, the various indicators that inform authorities whether their capital investment plans are affordable, prudent and sustainable, are set out below.

A further key objective of the code is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The indicators for Treasury management are set out in this paper.

Compliance with the Code is required under Part I of the Local Government Act 2003.

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Capital Expenditure	**£99m**	**£83m**	**£122m**	**£119m**	**£68m**	**£59m**
Capital financing requirement	**£268m**	**£257m**	**£257m**	**£257m**	**£257m**	**£257m**
Ratio of total financing costs to net revenue stream	**7.19%**	**5.94%**	**5.54%**	**5.62%**	**4.75%**	**4.81%**
Impact on Band D Council Tax of unsupported borrowing	**£3.89**	**£3.72**	**£3.55**	**£3.42**	**£3.30**	**£2.96**

The projected level of capital expenditure shown above differs from the total of the detailed four year programme presented in this report as an allowance has been provided to cover estimated additional expenditure that may occur during the course of a year, for instance projects funded by government grants, section 106 contributions and projects funded from the future developments programme. Capital expenditure for 2020/21 to 2021/22 is less than earlier years as government funding for Children and Family Services has not yet been announced.

The capital financing requirement (CFR) measures the Authority's need to borrow for capital purposes and as such is influenced by the availability of capital receipts and income from third parties, e.g. grants and developer contributions. The estimates are higher than the amounts shown in the main Treasury Management Strategy as they include provision to potentially use part of the over borrowed position (compared with actual debt). This would provide flexibility to raise prudential borrowing (funded from internal borrowing) to fund future capital developments and the Corporate Asset Investment Fund if needed.

The prudential code includes the following as a key indicator of prudence:

`In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority shouid ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years'. In the medium term this indicator will not be met due to the reduction in the capital financing requirement in recent years and the currently prohibitively expensive premiums to repay existing debt. The Council will consider options to reduce this position where they are in the long term financial interests of the Council. Further details are included in the main Treasury Management Strategy Statement and Annual Investment Strategy 2018/19.

The key indicator of affordability is the impact of capital expenditure on Council Tax. The indicator falls gradually over the periods shown reflecting the decision for no new unsupported borrowing from external loans.

In respect of external debt, it is recommended that the Council approves the limits detailed in the tables below for its total external debt for the next four financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Director of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to the Cabinet at its next meeting following the change.

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case, scenario. The key difference is that the Authorised Limit cannot be breached without prior approval of the County Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

Operational boundary for external debt

	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£rir
Borrowing	264.6	264.1	263.6	263.1
Other long term liabilities	1.3	1.2	1.1	1.0
Total	**265.9**	**265.3**	**264.7**	**264.1**

Authorised limit for external debt

	2018/19	2019/20	2020/21	2021/22
	Em	£m	£m	£m
Borrowing	274.6	274.1	273.6	273.1
Other long term liabilities	' 1.3	1.2	1.1	1.0
Total .	**275.9**	**275.3**	**274.7**	**274.1**

In agreeing these limits, the Council is asked to note that the authorised limit determined for 2018/19 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Comparison of original 2017/18 indicators with the latest forecast
In February 2017 the County Council approved certain prudential limits and indicators, **the latest** projections of which are shown below:

	Prudential Indicator 2017/18	Latest Projection 18/01/18
Actual Capital Financing Costs as a % of Net Revenue Stream	5.95%	5.94%
Capital Expenditure	£83m	£83m
Operational Boundary for External Debt	£275.9m	£275.9m
Authorised Limit for External Debt	£285.9m	£285.9m
Interest Rate Exposure — Fixed	50-100%	100%
Interest Rate Exposure — Variable	0-50%	0%
Capital Financing Requirement	£257m	£257m

The latest forecast of external debt, £264.6m, shows that it is within both the authorised borrowing limit and the operational boundary set for 2017/18. The maturity structure of debt is within the indicators set. The latest projection for capital expenditure is in line with the indicator set.

Treasury Management Indicators

The Local Government Act 2003 requires the County Council to ensure that treasury management is carried out with good professional practice. The Prudential Code includes the following as the required indicators in respect of treasury management:

a) **Upper limits on fixed interest and variable rate external borrowing.**
b) **Upper and lower limits for the maturity structure of borrowings.**
c) **Upper limit for principal sums invested for periods longer than 364 days.**

After reviewing the current situation and assessing the likely position next year, the following limits are recommended:

a) **An upper limit on fixed interest rate exposures for 2018/19 to 2021/22 of 100% of its net outstanding principal sums and an upper limit on its variable interest rate exposures for 2018/19 to 2021/22 of 50% of its net outstanding principal sums.**

b) **Upper and lower limits for the maturity structure of its borrowings as follows: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:**

	Upper Limit %	Lower Limit%
under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

c) **An upper limit for principal sums invested for periods longer than 364 days is 0% of the portfolio.**

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

ANNEX 3

POLICY ON APPROVED ORGANISATIONS FOR LENDING

APPROVED ORGANISATIONS FOR LENDING

Institution	Maximum Sum Outstanding/Period of Loan
UK Clearing Banks and UK Building Societies*	£20m16 months up to £50m/12months
UK Debt Management Office	No maximum sum outstanding/12 months
UK Government Treasury Bills	No maximum sum outstanding/12 months
Foreign Banks	£10m/6 months up to £15m/12 months
Money Market Funds	£25m limit within any AAA-rated fund. £125m maximum exposure to all Money Market Funds
UK Local Authorities	£10m/12 months

*In the event that an investment is entered into which is legally offset against borrowing in the form of a LOBO (Lender's Option, Borrower's Option) from the same counterparty, the maximum period will be 20 years and the maximum sum will be the amount of the LOBO deal against which the legal offset exists.

The list of acceptable institutions will mirror the list of suggested counterparties maintained by Capita Asset Services, except the maximum maturity period will be restricted to 1 year and no institution with a suggested maturity period of 100 days or less will be excluded.

LIMITS FOR INDIVIDUAL FINANCIAL INSTITUTIONS

UK Banks and Building Societies

Maximum Sum Outstanding	£50m	£30m	£20m
Maximum Loan Period	1 year	1 year	6 months
General description	'Special Institutions' (i.e. a significant element of UK-Government ownership) and included in Capita list for period of 1 year or more	Not 'special institutions' and included in Capita list for period of 1 year or more	included in Capita List for period of 6 months

Overseas Banks

Maximum Sum Outstanding	£15m	£10m
Maximum Loan Period	1 year	6 months
Minimum Fitch Ratings	Included in Capita list for period of 1 year or more	Included in Capita List for period of 6 months

A maximum of £30m can be invested with all banks domiciled within a single country (note: there is no limit for total lending to UK financial institutions).

Some financial institutions have both a parent company and a subsidiary that are licensed deposit takers in the UK. Where this is the case a 'group limit' will apply, and this will be the limit that is given to the parent company.

In some cases the parent company will be an overseas institution and they will have UK-registered subsidiaries. Where this is the case the parent company limit will apply at a total group level, even if this limit is less than would be given to the UK subsidiary on a stand-alone basis. Any money invested with a UK subsidiary of an overseas institution will be classed as being invested in the country of domicile of the parent, if the parent is an overseas institution for country-maximum purposes.

If the credit rating of an individual financial institution decreases to a level which no longer makes them an acceptable counterparty the Director of Finance will make a decision on what action to take. Similar actions will be taken if a counterparty is downgraded to a level which allows them to remain on the list of acceptable counterparties, but where the unexpired term of any loan is longer than the maximum period for which a new loan could be placed with them.

In the event that the circumstances highlighted in the above paragraph occur, the Director of Finance will report his decision to the Cabinet and/or Corporate Governance Committee when it is deemed significant enough to do so. If there is considered to be no meaningful risk involved, relative to agreeing a new loan of the outstanding maturity period to the same counterparty, the decision will not be reported.

It should be noted that there will be no legal right to cancel a loan early, and any premature repayment can only be made with the approval of the counterparty and may include financial penalties.

ANNEX 4

TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

1. This organisation defines its treasury management activities as:

   " The management of the 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"

2. This organisation 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.

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