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AGENDA PAPERS MARKED 'TO FOLLOW' FOR

ACCOUNTS AND AUDIT COMMITTEE

Date: Tuesday, 10 February 2015

Time: 6.30 pm

Place: Committee Rooms 2 and 3, Trafford Town Hall, Talbot Road, Stretford, M32 0TH

A G E N D A	**PART I**	**Pages**
4.	**TREASURY MANAGEMENT STRATEGY 2015/16 - 2017/18**	
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THERESA GRANT
Chief Executive

Membership of the Committee

Councillors M. Whetton (Chairman), Mrs. L. Evans (Vice-Chairman), J. Baugh, C. Boyes, B. Brotherton, D. Butt and T. Ross.

Accounts and Audit Committee - Tuesday, 10 February 2015

Further Information
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This agenda was issued on **Thursday, 5 February 2015** by the Legal and Democratic Services Section, Trafford Council, Trafford Town Hall; Talbot Road, Stretford, Manchester, M32 0TH

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TRAFFORD COUNCIL

Report to:	**Accounts & Audit Committee 10 February 2015** **Executive & Council Meetings 18 February 2015**
Report for:	**Decision**
Report of:	**The Executive Member for Finance and Director of Finance**

Report Title

TREASURY MANAGEMENT STRATEGY 2015/16 – 2017/18

Summary

This report outlines the:-

- strategy to be followed during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision and
- Prudential Indicators for 2015/16 – 2017/18.

Recommendations

That the Accounts & Audit Committee & Executive recommend to Council for approval the:

- policy on debt strategy for 2015/16 to 2017/18 as set out in section 3;
- investment strategy for 2015/16 to 2017/18 and amendments to the credit criteria as set out in section 5;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

Contact person for access to background papers and further information:

Name: Graham Perkins
Extension: 4017

Background papers: None

Relationship to Policy Framework / Corporate Priorities	Value for Money
Financial	The treasury management strategy will aim to maximise investment interest and reduce interest payable on debt, whilst minimising the risk to the Council.
Legal Implications:	Actions being taken are in accordance with legislation, CLG Guidance, CIPFA Prudential Code and CIPFA Treasury Management Code of Practice.
Equality/Diversity Implications	Not applicable
Sustainability Implications	Not applicable
Resources Implications e.g. Staffing/ICT/Assets	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the treasury management systems and procedures which are independently tested on a regular basis. The Council's in-house treasury management team continually monitor to ensure that the main risks associated with this function of adverse or unforeseen fluctuations in interest rates are avoided and security of capital sums are maintained at all times.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Treasury Management Strategy 2015/16 - 2017/18– Summary of Key Points

This report outlines the expected treasury activities for the forthcoming three years and has been prepared in accordance with the Council's Financial Procedure Rules. Additional treasury management reports are produced during the course of the year reporting actual activity for the preceding year and a Mid-year update.

Economic situation (Appendix 2)

The global economic recovery which commenced in the second half of 2013, did not continue as forecasted during 2014 with only the UK and US showing any continuing positive signs of growth.

Main economic headlines were:

- UK reported positive growth throughout 2014 with unemployment falling from 2.1m April 2014 (6.6%) to 1.96m September 2014 (6.0%);
- The Eurozone continues to give cause for concern with increasing risk of deflation and weak growth;
- US sustained its recovery despite posting depressed quarter1 growth figures as a result of exceptional bad weather and
- Japan returned negative growth in quarter2 which the Japanese Government is hoping is only a temporary blip.

Debt (Section 3)

In line with previous years practice, no external loans are planned to be taken to finance the Council's capital investment requirement apart from those required for the proposed L.E.D. Street Lighting scheme if this is progressed following the Joint Venture procurement process. As a consequence of this action, the internal borrowing position (i.e. cash backed reserves, balances and cash flow being used rather than taking on new debt) will be at £44.7m by 31 March 2015 and generate a saving in loan interest payable of £1.3m. This approach, which has been adopted by the majority of councils, reduces both the risks associated with investment counterparties and the large difference between debt costs and investment returns.

Debt restructuring exercises will only be undertaken in order to produce revenue savings or lower overall treasury risk.

Investments (See Section 5 and Appendix 3)

The primary principles governing the Council's investment criteria remains unchanged from that previously adopted of security of capital first, liquidity of its cash flows and finally yield.

The Council is required to agree the lending criteria, which is primarily determined by credit ratings issued by all 3 major credit rating agencies as detailed at Appendix 3. *The only recommended change to that previously agreed by Council in February 2014 relates to the Rating Agencies decision to review the Viability and Financial Strength ratings and it is requested that these are removed from the Council's minimum credit criteria.*

The removal of these 2 rating indicators will not affect the creditworthiness of any of the institutions included on the Council's lending list.

Prudential Indicators and limits (Section 7 and Appendix 3)

The Council is required to approve a set of Prudential Indicators and limits which ensure the Council's capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 3 for Member approval.

Please note a glossary of all abbreviations appears at Appendix 7 for reference.

1. Background

1.1 The main task of the treasury management function is to ensure that adequate cash is available to meet the Council's cash flow requirements together with the management of its long and short term loans. Temporary surplus monies which become available during the year resulting from the receipt of funding ahead of requirement are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.

1.2 Another function of the treasury management service is to arrange the funding of the Council's capital investment programme. This is longer term cash flow planning to ensure the Council can meet its capital spending obligations and may involve arranging long or short term loans.

1.3 All transactions undertaken as part of the treasury management operation comply with all the statutory requirements together with the CLG Guidance, CIPFA Treasury Management Code of Practice which the Council has adopted and a brief outline of these has been provided at Appendix 1.

1.4 Each year in order to comply with the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code), the Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals as follow;

- Annual treasury strategy for the year ahead (February i.e. this report)
- Mid-year update report (November)
- Annual report on the activity undertaken compared to the strategy (June).

1.5 The Council uses Capita Asset Services as its treasury management advisors who provide a range of services on all treasury matters from the supply of credit ratings to technical support and this service is subject to regular review.

1.6 Whilst the advisors provide support to the internal treasury management team, the Council recognises that the final decision on all treasury management matters remains with the organisation at all times.

1.7 The Council recognises the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are fully equipped to undertake the duties and responsibilities allocated to them by ensuring that;

- Members will continue to have access to training which will be relevant to their needs & responsibilities and
- Officers will attend courses / seminars presented by CIPFA, LGC, Advisors & any other suitable professional organisation, in accordance with Council policy on this issue.

1.8 Excluded from this report are the activities carried out by the Council's schools, which operate within a separate criteria as stipulated by the Director of Finance and in accordance with the Council's Financial Procedure Rules.

2. Economic & Interest Rate forecast

2.1 The Worldwide economic situation, despite showing signs in late 2013 of recovering, continues to remain in a fragile condition with only the UK and US reporting positive signs of a recovery in 2014.

2.2 Further details on the major economic events which occurred in 2014 and forecasts for 2015/16 are outlined at Appendix 2 for reference.

2.3 Capita, the Council's external treasury management advisors, has produced a set of interest rate forecasts up to March 2018 and these are highlighted in the table below;

Annual Average	Bank Rate (%)	Investment Rates (%)		Borrowing Rates (%)	
		3 month LIBID	1 year LIBID	5 year	25 year
2014/15	0.50	0.50	0.90	2.10	3.35
2015/16	0.63	0.70	1.20	2.40	3.75
2016/17	1.12	1.23	1.70	3.00	4.35
2017/18	1.75	1.83	2.33	3.45	4.70

2.4 The Council's advisors have stated that the economic situation and outlook is uncertain and as a result of this the Council will therefore continue to take a cautious approach to its treasury strategy during this period.

3. Debt Strategy 2015/16 – 2017/18

3.1 The Council has the powers to borrow new funds from either the Public Works Loan Board, part of the Government's Debt Management Office, or from the money market providing it is to assist cash flow in the short term or finance capital investment over the longer term.

3.2 The Council currently maintains an under-borrowed position resulting from the decisions not to finance capital spending from new external loans. Instead cash supporting the Council's reserves, balances and cash flow has been used to finance this requirement and this approach continues to be widely adopted by councils as a result of low investment returns and investment instituion risk.

3.3 The table below shows the actual external debt levels against the underlying capital borrowing need (the Capital Financing Requirement - CFR) highlighting the Council's under-borrowing position.

	2014/15	2015/16	2016/17	2017/18
	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Debt at 1 April	97,417	94,992	97,922	98,775
Debt maturing	(2,425)	(1,770)	(3,747)	(2,684)
New Debt	0	4,700	4,600	0
Debt at 31 March	94,992	97,922	98,775	96,091
Capital Financing Requirment at 31 March	139,721	138,389	138,325	133,596
Under borrow at 31 March	44,729	40,467	39,550	37,505

3.4 In the current economic climate of investment rates being below long term borrowing rates, the existing strategy of not undertaking any borrowing to replace the funds previously used, totalling £44.7m as at 31 March 2015, is proposed in the main to continue saving the Council £1.3m in loan interest payable (£44.7m x 3.0%).

3.5 It is currently forecasted any new borrowing will only be taken, commencing in 2015/16, regarding the Council's L.E.D. street lighting replacement programme totalling £9.3mif Members approve the implementation of this scheme. These loans will be taken in line with forecasted spend profile for this scheme with all debt costs being met from savings generated from reduced maintenance and energy costs.

3.6 In addition to the borrowing undertaken directly, the Council is also responsible for a further £0.9m which is administered by Tameside Borough Council. This follows the conversion in February 2010 of loans previously held on behalf of Manchester International Airport into an equity rated instrument.

3.7 As short term borrowing rates will be cheaper than longer term fixed interest rates, there may be potential opportunities in the future to generate revenue savings by switching from long term debt to short term debt. However the cost of premiums incurred, due to early repayment, will also need to be taken into account before any restructuring is undertaken.

3.8 The Council retains the flexibility to borrow funds in advance of requirement should market conditions unexpectedly change i.e. anticipate a sharp rise in interest rates, however funds will not be taken purely in order to profit from investment of the extra sums borrowed. This course of action will be done in accordance with the Director of Finance's delegated powers and reported to Members through either the mid-year or annual reporting mechanism.

3.9 Any borrowing undertaken in this way by The Director of Finance will be done within the constraints stated below;

- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period is to be taken in this manner and
- borrowing only up to a maximum 12 months in advance of need.

3.10 A breakdown of the Council's expected debt maturity profile as at 31 March 2015 is provided at Appendix 4 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for the market loans.

3.11 The Council is required to approve;

- the above debt strategy and
- as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard for CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 3 for Council approval.

4. Minimum Revenue Provision Strategy

4.1 The Council is required to set aside an amount each year for the repayment of debt (by reducing the CFR), through a revenue charge called the Minimum Revenue Provision (MRP). In addition, the Council is also allowed to undertake voluntary revenue payments (VRP).

4.2 The Council is required, in accordance with C.L.G. regulations, to approve an MRP Policy in advance of each year and for which a variety of options are provided to councils so long as there is a prudent provision. The Council as part of the Prudential Indicators and Limits requirement is requested to approve the MRP statement as detailed at Appendix 3.

5. Investment Strategy

5.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the revised CIPFA Treasury Management in Public Services Code of Practice.

5.2 The Council's investment criteria remains as that of previous years i.e. security of capital first, liquidity of its investments and then yield.

5.3 In order to ensure that investments are only placed with strong creditworthy institutions, the Council creates a counterparty list based on credit ratings issued by all three of the main rating agencies (Fitch, Moody's and Standard and Poor's) and uses the lowest common denominator approach which defaults to the lowest equivalent rating. For instance if an institution whose rating issued by one of the credit rating agencies does not meet the minimum criteria stipulated, it will not be included in the approved list of institutions to whom the Council can lend monies to.

5.4 This approach uses real time credit rating information provided by the Council's advisers Capita and enables an institution to be included on this list, using the latest ratings.

5.5 Any institution featuring on the Council's approved list which incurs a negative rating change taking it below the minimum credit criteria required, will immediately be suspended from use and removed from the authorised list.

5.6 Whilst investment risk cannot entirely be eliminated it can be minimised and in order to reduce the risk of an institution defaulting, the Director of Finance has previously recommended the minimum acceptable credit quality for inclusion on the Council's lending list be as follows;

- Short Term – Fitch F1 or equivalent
- Long Term – Fitch A- or equivalent
- Viability / Financial Strength – C (Fitch / Moody's only)
- Support – 3 (Fitch only).

5.7 During the financial crisis, the credit rating agencies provided some institutions with a ratings "uplift" due to implied levels of sovereign support. In response to a recent review of this situation by the agencies, they have announced that these "uplifts" in ratings are now to be removed as a result of sovereign governments moving away from a bail out role. Whilst the actual timing of this change is still currently unknown, it is anticipated that this could occur shortly therefore changes to the credit methodology are required.

5.8 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions; for Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the pending removal of the sovereign support element currently built into each institution assessment, both agencies have suggested that those ratings would duplicate their respective Long Term ratings thereby removing the need for these separate standalone ratings.

5.9 As a result of these pending changes, it is the Council's proposal that the credit criteria will focus solely on the Short and Long Term ratings of an institution at the minimum levels outlined at paragraph 5.6, with Rating Watch's and Outlook information continuing to be assessed where it relates to these categories.

5.10 *It is important to stress that the rating agency amendments do not reflect changes in the underlying status of the institution, merely the removal of that element which has previously been built into the rating for implied Government support. The removal of these 2 elements of credit methodology will not in any way devalue the credit worthiness of any of the institutions the Council uses for the placement of its funds.*

5.11 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 5.

5.12 The criteria for choosing institutions as set out in more detail at Appendix 3 provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria, the Director of Finance may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered. These restrictions would remain in place until the banking system returned to "normal" conditions. Similarly the time periods for investments may be restricted.

5.13 The Council officers further recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor each institution taking into account market opinions, financial press, equity & credit default swap prices. This additional market information is detailed for Members' reference at Appendix 5.

5.14 Further to the Council's list of high quality investment institutions, additional factors will also be used in order to reduce any potential exposure of its investments including how much in total can be placed in non-UK institutions, Groups and Sectors and these are explained in more detail at Appendix 5 together with time and value limits.

5.15 Investments will continue to be placed into three categories as follows;

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period with bank call accounts, money market funds and certificates of deposits being the main methods used for this purpose.
- Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and enhanced money market funds.
- Long-term – cash not required to meet any forthcoming cash flow requirements which can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits or government bonds, after taking into consideration the forecasted interest rate yield curve.

5.16 The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded and will be limited to the Prudential Indicator detailed at Appendix 3.

5.17 A breakdown of the Council's investments as at 31 December 2014 is provided for reference at Appendix 6.

5.18 The Council is requested to approve;

- the above Investment strategy to be adopted and
- the minimum criteria for providing a list of high quality investment institutions, instruments and limits to be applied are highlighted at Appendix 3.

6. Investment Risk Benchmarking

6.1 The Code of Practice and CLG Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to Members and these are explained in more detail in Appendix 5.

6.2 These benchmarks are simple guides to maximum risk (not limits) and so may be breached from time to time, depending on movements in interest rates and institution criteria. Their purpose is to assist officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported to Members, with supporting reasons in the Mid-Year or Annual Report. For reference these benchmarks will be;

- Security - for each individual year the security benchmark when compared to historic default rates are not to exceed:

1 year investments	2 year investments	3 year investments
0.09%	**0.04%**	**0.14%**

- Liquidity - In respect of this the Council seeks to maintain;
  Bank overdraft of £0.5m;

  Weighted Average Life (WAL) benchmark for 2015/16 is set at 6 months, with a maximum of 3 years;

  Liquid short term deposits of at least £15m are available with a week's notice
- Yield benchmarks are currently used to assess investment performance and internal returns are required to achieve above the 7 day LIBID rate.

7. Prudential Indicators

7.1 A number of prudential indicators have been devised for both the treasury management and capital operations. These are designed to assist managing risk and reducing the impact of an adverse movement in interest rate as well as ensuring that the Council's capital expenditure plans are prudent, affordable and sustainable. These indicators have been set in order that they are not too restrictive thereby impairing the opportunities to reduce costs and reflect the capital programme proposals, included within the main budget report.

7.2 Members are requested to approve the Prudential Indicators for Council's treasury management activities as detailed at Appendix 3.

8. Recommendations

That the Accounts & Audit Committee and Executive recommend to Council the key elements of this report for approval;-

- the policy on debt strategy for 2015/16 to 2017/18 as set out in section 3;
- the investment strategy for 2015/16 to 2017/18 as set out in section 5;
- the Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), The Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

Other Options

This report has been produced in order to comply with Financial Procedure Rules and relevant legislation. It provides a plan of action for the period 2015/16 to 2017/18, which is flexible enough to take account of changes in financial markets.

Consultation

Advice has been obtained from Capita, the Council's external advisors.

Reasons for Recommendation

The Financial Procedure Rules, incorporating the requirements of the revised CIPFA Prudential Code and the CIPFA Treasury Management Code. These consider that the annual strategy report is an essential control over treasury management activities whereby Members approve the parameters under which officers will operate. In addition The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and CLG Guidance an annual investment strategy (setting out the limits to investment activities).

Key Decision

This will be a key decision likely to be taken in: February 2015
This is a key decision currently on the Forward Plan: Yes

Finance Officer Clearance *……GB…..*

Legal Officer Clearance *… JL.…...*

Director of Finance Signature …………

STATUTORY FRAMEWORK

Local Government Act 2003

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 3);
- The investment strategy in accordance with the Communities and Local Government (C.L.G.) investment guidance (section 5);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

CIPFA Code of Practice

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). This Council adopted the Code of Practice on Treasury Management on 24 April 2002 and followed recommended practices by considering an annual Treasury Management Strategy before the commencement of each financial year. These Codes are revised from time to time and the Council complies with any revisions.

CIPFA defines treasury management as *"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions(debt); the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".*

Investment Guidance

CLG. issued Investment Guidance in March 2010, and this forms the structure of the Council's policy below,

- The strategy guidelines for decision making on investments, particularly non-specified investments.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.
- The principles to be used to determine the maximum periods for which funds can be committed.

MAIN ECONOMIC HEADLINES DURING 2014/15

- **UK economy**-
  - Annualised GDP growth of 3.1% was encountered making it the strongest reported rate of growth for any G7 country – this was despite a weakening in the manufactoring sector and exports as a consequence of poor growth in the Eurozone;
  - Consumer Price Index (CPI) fell to 0.5% in December 2014, its lowest level since May 2000;
  - Wage inflation continues to remain significantly below Consumer Price Index Inflation;
  - MPC left both the Bank Rate and Quantative Easing levels unchanged at 0.5% and £375bn respectively;
  - The level of unemployment benefit claimants fell to 6% in September 2014, its lowest in 5 years and remained at this level in October 2014.

- **Eurozone** –
  - Concerns over the economy remain as a result of a downturn in growth, increasing risks of deflation and worries over the Ukraine situation;
  - CPI fell to a low of 0.3% in September 2014 however this is an average for all Eurozone countries and includes some countries with negative rate (deflation);
  - Unemployment rate continues to be a problem at 11.50%;
  - Italy continues to have the third biggest level of debt in the world behind Japan & US;
  - Greece remains vulnerable but continues to make good progress in reducing its annual deficit however this trend is now expected to be modified due to the recent change of government to the anti- austerity party Syriza who wants to renegotiate the terms of its sizeable bailout;
  - European Central Bank reduced its central policy rate from 0.25% to 0.05% and started a programme to purchase corporate debt in September 2014.
- **US** –
  - Despite the first quarter GDP figure being depressed by exceptionally bad winter weather, annualised growth is set to be 2.4%;
  - The Federal Reserve left the Bank rate unchanged at 0.25% and ended its monthly asset purchases (QE) in October 2014 signalling that the economic recovery was on track;
  - Unemployment levels fall to 5.8% in November 2014;
  - CPI 1.30% in November 2014.

Other –

- China's economy appears to be growing by the target rate of 7.5% following the Government's action to stimulate it;
- Japan's economy is giving cause for concern as negative growth in quarter 2 was reported however the Government is hoping that this is a temporary blip.

MAIN ECONOMIC FORECASTS FOR 2015/16

Economic forecasting continues to remain difficult, particularly with many so external influences affecting not only the UK but the Worldwide economy as well and forecasters are currently predicting the following levels of activity;

Indicator	UK	Eurozone	US	China	Japan
Growth Domestic Product	2.7%	1.5%	3.0%	7.1%	1.1%
Consumer Price Index	1.8%	1.1%	2.0%	2.6%	1.6%
Unemployment Rate	5.3%	11.2%	5.9%	7.0%	3.7%
Bank Rate	1.0%	0.1%	2.4%	N/A	0.1%

ELEMENTS FOR COUNCIL APPROVAL
(including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)

In accordance with CLG Guidance, the CIPFA Prudential Code and the CIPFA Code of Practice on Treasury Management each council is required to set, before the commencement of each financial year, Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2015/16 – 2017/18 as detailed below.

PRUDENTIAL AND TREASURY INDICATORS AND LIMITS

In accordance with the CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the expected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and the Council is required to approve the prudential indicators and limits affecting treasury management performance as shown below;

Prudential Indicators	2014/15 estimate £m	2015/16 estimate £m	2016/17 estimate £m	2017/18 estimate £m
(1) Upper Limits – Fixed interest rate exposure (interest costs)	**3.2**	**3.0**	**2.8**	**2.4**
(2) Upper Limits – Variable interest rate exposure (interest costs)	**3.1**	**3.2**	**3.2**	**3.3**
Upper Interest Limits – identifies the maximum limit for both fixed and variable interest rates exposure based upon the Council's debt position net of investments (debt interest payable less investment interest receivable).				
(3) Authorised Limit for External debt				
- External debt (01.04)	120	120	120	120
- Other long term Liabilities (PFI)	7	6	6	6
Total	**127**	**126**	**126**	**126**
Authorised external debt limit - maximum level of external debt that the authority will require to cover all known potential requirements and includes headroom to cover the risk of short-term cash flow variations that could lead to a need for temporary borrowing. This limit needs to be set or revised by Council and is the statutory limit determined under section 3(1) of the Local Government Act 2003.				
(4) Operational Boundary Limit for External debt				
- External debt (01.04)	100	100	100	100
- Other long term Liabilities (PFI)	7	6	6	6
Total	**107**	**106**	**106**	**106**

Prudential Indicators	2014/15 estimate £m	2015/16 estimate £m	2016/17 estimate £m	2017/18 estimate £m
Operational boundary - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year excluding any temporary borrowing and is not a limit.				
(5) Upper limit for sums invested over 364 days	**60**	**60**	**60**	**50**
Upper Limit for sums invested for over 364 days – these limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment.				
(6) Gross debt and Capital Financing Requirement				
-External debt (01.04)	100	100	100	100
-Other long term Liabilities (PFI)	7	6	6	6
Gross debt	107	106	106	106
-C.F.R.	140	138	138	134
Excess C.F.R.	**33**	**32**	**32**	**28**
Gross Debt and the Capital Financing Requirement – this indicator reflects that over the medium term, debt will only be for capital purposes. The Director of Finance will ensure that all external debt does not exceed the capital financing requirement with any exceptions being reported to Council.				

MATURITY STRUCTURE of BORROWING 2015/16 to 2017/18		
	Lower limit %	**Upper limit %**
Under 12 months	0	70
12 months to 2 years	0	25
2 years to 5 years	0	25
5 years to 10 years	0	25
10 years to 20 years	0	25
20 years to 30 years	0	25
30 years to 40 years	0	25
40 years and above	0	25
Maturity Structure of Borrowing – these gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and this indicator reflects the next date on which the lending bank can amend the interest rate for the Lender Option Borrower Option loans.		

All the prudential and treasury indicators are monitored on a regular basis. If the situation arises that any of the prudential indicators appear that they will be breached for a sustained period, then this will be reported to the Council at the earliest opportunity.

MINIMUM REVENUE PROVISION - (no change)

In accordance with C.L.G. Guidance, the Council shall determine for the current financial year, an amount of minimum revenue provision that it considers to be prudent and submit an MRP Statement setting out its policy for its annual MRP to Council for approval. The following MRP Statement has been prepared in accordance with the Council's accounting procedures as stated in the annual Statement of Accounts publication and is recommended for approval:

- Capital expenditure incurred before 1 April 2008 or which in the future will be supported by external borrowing approvals, the MRP policy will follow the existing practice outlined in former CLG regulations, i.e. 4% of the C.F.R. each year;
- Capital expenditure incurred after 1 April 2008 by prudential borrowing (unsupported), the policy will be based on the estimated life of the assets once operational with MRP charged on a straight line basis or annuity basis in accordance with the Guidance;
- MRP regarding PFI schemes and leases shown on the balance sheet will be based on the amount of the principal lease repayment included within the annual unitary payments made;
- For expenditure that does not create an asset, or following the use of a Capitalisation Direction, provision will be made over a period not exceeding 20 years, in accordance with Guidance.
- In instances where the Council incurs borrowing and a third party is obliged to repay the principal (serviced debt arrangements), then the Council will not charge MRP to the revenue account. An example of such an instance can be demonstrated when the Council participated in the national Local Authority Mortgage Scheme using the cash backed option with Lloyds bank. This involved the Council placing 2 five year deposits totalling £3m, (£2m 2012/13 & £1m 2013/14), with the bank matching the five year life of the indemnities. These deposits provide an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The C.F.R.will increase by the amount of the total indemnity. The deposit is due to be returned in full at maturity and once received will be classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.

INVESTMENT CRITERIA – (recommended changes as highlighted)

Counterparty Selection
The minimum criteria for providing a list of high quality investment counterparties is highlighted in the categories below and these are to be applied for both Specified (maximum period 1Year &) and Non-specified investments (maximum period 3 Years);

	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 1 – All UK or Non UK banks and building societies domiciled in a non-UK country which has a minimum Sovereign long term rating of AA and individual credit rating issued by Fitch, Moody's and Standard and Poor's of: • Short Term – Fitch F1 or equivalent • Long Term – Fitch A- or equivalent • The use of Viability & Financial Strength ratings are no longer to be applied to the criteria following a review by the Rating Agencies of their relevance. See Para 5.7-5.10 for details	AA- To AAA A- to A+	£20m £5m	3yrs 1yr
Category 2 – UK Banks part nationalised - Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in category1 above.	-	£20m	1yr (current limit 3yr)
Category 3 – The Council's own banker if the bank falls below the above criteria for transactional purposes only.	-	n/a	1day
Category 4 – • Money Market Funds – must be AAA credit rated • Enhanced Money Market Funds – must be AAA credit rated • UK Government (including treasury bills, gilts and the DMO) • Local Authorities • Supranational Institutions • Corporate bonds (Manchester International Airport only)	-	£20m	3yrs

Specified and Non Specified Investments – (no changes)

In accordance with the Code of Practice, the Council is required to set a criteria which identifies its investments between Specified and Non Specified investments and these are classified as follows;

- Specified investments are high security and high liquidity investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. A maximum of 100% can be held under this definition,

- Non specified investments are any other type of investment not defined as specified above with the maximum permitted to be held in this classification detailed in Appendix 3 including Manchester Airport Shares at 31 March 2014 of £36.7m and

- Local Authority Mortgage Scheme. Under this scheme, which is designed for first time buyers to be able purchase a property in the area, the Council is required to place funds of £3m with Lloyds bank for a period of 5 years to match the 5 year life of the indemnity. This is classified as being a service investment, rather than a treasury management investment and is therefore outside of the specified / non specified categories.

Instruments & Maximum period

All Investments will be undertaken in Sterling in the form of Term Deposits, Money Market Funds, Treasury Bills, Gilts or Certificates of Deposits unless otherwise stated below.

Specified Investments

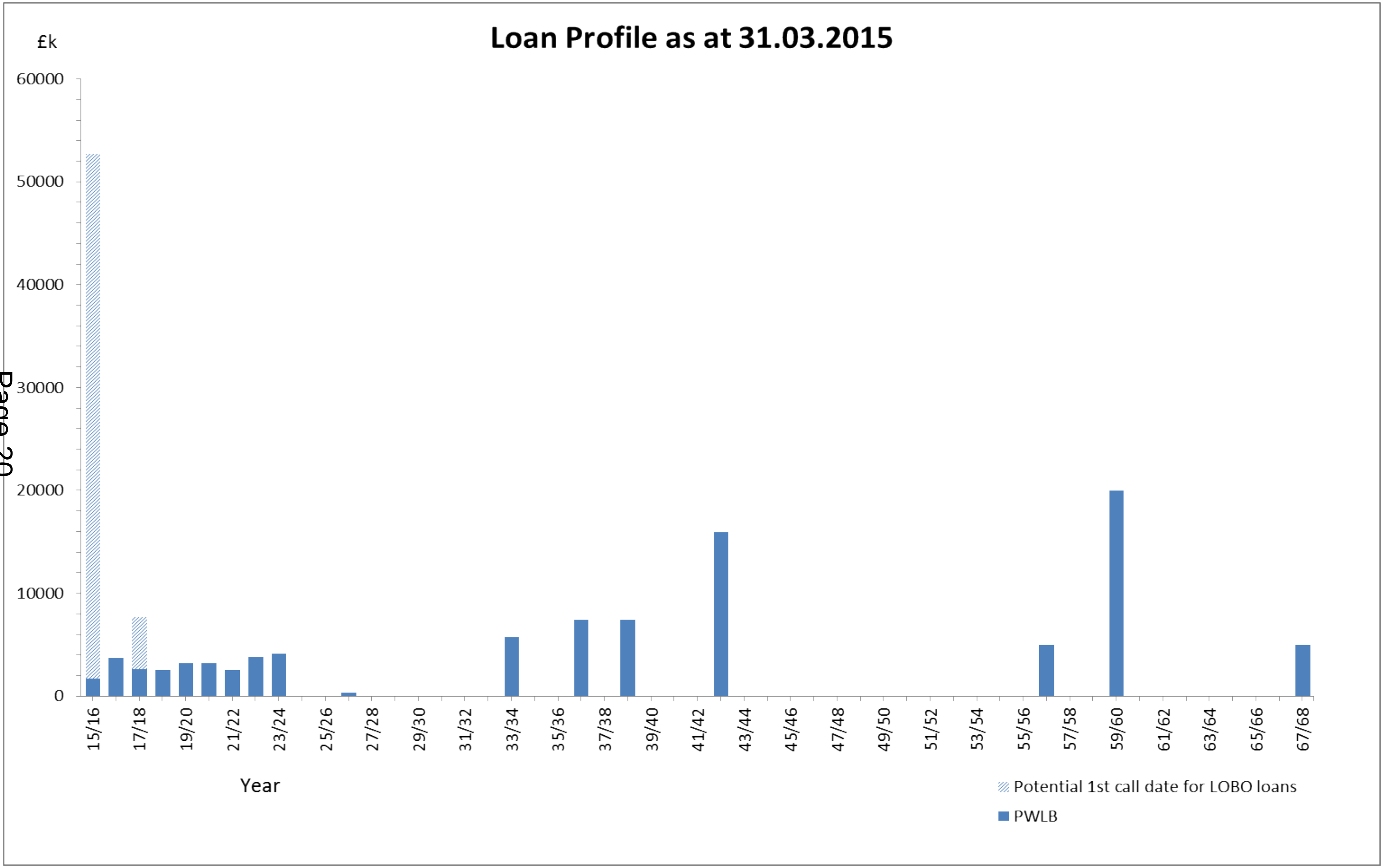
Investment	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration	1 Year
Pooled investment vehicles that have been awarded a AAA credit rating by Fitch, a credit rating agency, such as money market funds	1 Year
An institution that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.	1 Year

Non-Specified Investments

Investment	Maximum Maturity
Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). The security of interest and principal on maturity is on a par with the Government and so are very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years

Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years
The Council's own bank if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria detailed in Appendix 1, for deposits with a maturity of greater than one year.	3 Years
The UK Government including Local Authorities and Debt Management Office.	3 Years
Share capital or loan capital in a body corporate – The use of these instruments maybe deemed to be capital expenditure, and as such maybe an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £36.7m as reported in the 2013/14 statement of accounts. It is not envisaged that this type of investment will be undertaken in the future.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.	Term of loans

APPENDIX 4



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INVESTMENT CREDIT AND INSTITUION RISK MANAGEMENT

The Council receives credit rating advice from its treasury management advisers, as and when ratings change and institutions are checked promptly to ensure it complies with the Council's criteria. The criteria used are such that any minor downgrading should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately, and if required new institutions which meet the criteria will be added to the list.

		Credit Rating Agency		
Classification	**Description**	**Fitch (Minimum)**	**Moody's (Minimum)**	**Standard & Poors (Minimum)**
Short Term	Ensures that an institution is able to meet its financial obligations within 12 months	F1 (Range **F1+, F2 A** to **D**)	P1 (Range **P1** to **P3**)	A1 (Range **A-1,** to **C**)
Long Term	Ensures that an institution is able to meet its financial obligations greater than 12 months	A- (Range **AAA** to **D**)	A3 (Range **AAA** to **C**)	A- (Range **AAA** to **CC**)

Investment Institution information.

Whilst the Council's Investment institutions list is prepared primarily using credit rating information, additional market information is also required to also be considered. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the position would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.

- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by management advisors – this is may include some information detailed above together with weekly investment market updates.
- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

Investment Limits

In order to safeguard the Council's investments and in addition to the information shown at Appendix 1 due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 1 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

Investment Risk benchmarking

Security and liquidity benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

Security - A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows average defaults for differing periods of investment grade products for each Fitch/Moody's and Standard and Poors long term rating category over the period 1990 to 2011.

Long term rating	Average 1 yr default	Average 2 yr default	Average 3 yr default	Average 4 yr default	Average 5 yr default
AAA	**0.00%**	**0.02%**	**0.06%**	**0.09%**	**0.13%**
AA	**0.02%**	**0.04%**	**0.14%**	**0.28%**	**0.36%**
A	**0.09%**	**0.25%**	**0.43%**	**0.60%**	**0.79%**
BBB	**0.23%**	**0.65%**	**1.13%**	**1.70%**	**2.22%**
BB	**0.93%**	**2.47%**	**4.21%**	**5.81%**	**7.05%**
B	**3.31%**	**7.89%**	**12.14%**	**15.50%**	**17.73%**
C	**23.15%**	**32.88%**	**39.50%**	**42.58%**	**45.48%**

The Council's minimum long term rating criteria is currently "A", meaning the average expectation of default for a one year investment in an institution with a "A" long term rating would be 0.09% of the total investment (e.g. for a £1m investment the average loss would be £900). This is only an average as any specific institution loss is likely to be higher.

Liquidity – The CIPFA Treasury Management Code of Practice defines this as "*having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of its business/service objectives"*.

The availability of liquidity and the period of risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio (shorter WAL would generally represent less risk).

INVESTMENT & EXTERNAL DEBT PORTFOLIO AS AT 31.01.2015

	Principal £m	Average Rate %
DEBT		
Fixed rate:		
- PWLB	39.2	6.99
- Market	5.0	4.41
Sub-total	44.2	6.69
Variable rate:		
- PWLB	0.0	0.0
- Market	51.0	5.47
Sub-total	51.0	5.47
Total debt	**95.2**	**6.03**
INVESTMENTS		
- Fixed rate	(40.1)	0.88
- Variable rate	(29.4)	0.49
Total Investments	**(69.5)**	**0.74**
NET ACTUAL DEBT	**25.7**	

GLOSSARY of ABBREVIATIONS

CDS	Credit Default Swaps – financial instrument for hedging against counterparty default
CLG	Communities & Local Government (Department of)
CIPFA	Chartered Institute of Public Finance & Accountancy
CFR	Capital Financing Requirement – this is a measure of the council's borrowing needs in order to finance its capital investment programme.
DMO	Debt Management Office – low credit risk UK Government investment Counterparty which offers low rates of return
LGC	Local Government Chronicle
LIBID	London Interbank BID interest rate – average rate of interest offered by the UK clearing banks
MRP	Minimum Revenue Provision – this is the amount required to pay off an element of the capital spend each year through a revenue charge
PFI	Private Finance Initiative – private sector source of funding
PWLB	Public Works Loan Board
VRP	Voluntary Revenue Provision – identical to MRP but on a voluntary basis
WAL	Weighted Average Life – benchmark indicating average life of investments

AGENDA ITEM NO.

TRAFFORD COUNCIL

Report to: **Accounts & Audit Committee**
Date: **10 February 2015**
Report for: **Information**
Report of: **Director of Finance**

Report Title

Reserves and Provisions

Summary

Total Council reserves at 1st April 2014 were £(81.3)m, of which £(13.4)m belonged to schools, £(27.32)m was committed to finance the capital programme, £(15.9)m of accounting adjustments largely relating to the Business Rates scheme, £(10.98)m General Reserve, leaving a balance of £(13.77)m. The majority of this balance resides in the insurance reserve £(3.4)m, Employee Rationalisation Reserve £(2.4)m to provide for the costs of reorganisation and Smoothing Reserves £(3.8)m to smooth the volatility in base budget fluctuations, such as the increase in the Waste Levy.

Reserves and provisions are reviewed throughout the year, but particularly at the time of establishing a budget and closing down the accounts at the end of the year. At the time of writing this report the revenue budget for 2015/16 is anticipated to include for £1.0m of expenditure to be financed from reserves as a result of the one off dividend of £1.0m from Manchester Airports Group (MAG). The major movement in reserves includes the writing down of the accumulated deficit on the Learning Disability Pool of £3.022m using a contribution from General Reserve.

After taking into account all other reserves and provisions, a minimum reserve level of £6m of the General Reserve is expected to be maintained, subject to formal agreement by the Council in February 2015.

The estimated reserve balance at March 2017 on non-school earmarked reserves, is £(4.447)m of which £(2.473)m relates to the insurance reserve and £(1.526)m Smoothing reserves. The remaining balance of £(0.448)m is largely made up from the service carry forward reserves of £(0.364)m.

The Council is required by law to maintain a minimum level of reserves to meet unexpected or emergency expenditure, which is currently established at £6m of the General Reserve after taking into account the existing earmarked reserves and their known commitments. Once all known commitments have been taken in to account, the General Reserve is estimated to stand at £6.3m at the end of 2015/16.

Total Council Provisions at 1st April 2014 were £(25.2)m, of which £(18.0)m related to the Council's share of business rate appeals. The projected Provisions balance as at March 2017, excluding business rates appeals is £(3.98)m which represents the estimated outstanding value of insurance liability claims.

Recommendation(s)

The report is noted.

Contact person for access to background papers and further information:

Name: Dave Muggeridge
Extension: 4534

Papers for further reference:

Accounts 2014, published October 2014
Budget Report 2015/16, 18 February 2015
2014/15 Revenue Monitoring Reports

Background Information

Implications:

Relationship to Corporate Priorities	None arising out of this report
Financial	None arising out of this report
Legal Implications	None arising out of this report
Equality/Diversity Implications	None arising out of this report
Sustainability Implications	None arising out of this report
Staffing/E-Government/Asset Management Implications	None arising out of this report
Risk Management Implications	None arising out of this report
Health and Safety Implications	None arising out of this report

1. Definitions

1.1 The Council has both cash-backed and non cash-backed reserves. Non cash-backed reserves are for the purposes of accounting adjustments required to state the statutory accounts according to format universally applied to both private sector and public sector bodies without actually affecting the Council's budget and therefore the amount of Council Tax that needs to be raised. For example, increases or decreases in pension fund valuations are adjusted to a non cash-backed reserve, or accounting reserve, rather than the £millions in annual variation impacting on the Council's operations. This report will deal only with cash-backed reserves and provisions.

1.2 The following 'layman' definitions are provided as reference to describe and place in context provisions and reserves:

- **Reserve:** an amount set aside for a possible future event that is either planned or dependent upon potential future circumstances so that the additional expense would not impact on base budget.
- **Provision:** a liability is certain, however the value and/or timing of payment is not known and has to be professionally estimated.

2. Governorship, Reporting & Management

2.1 Provisions are established for a specific legal liability and monies released only to discharge that liability. Increases and decreases to provisions are charged to the revenue account in the year that change is identified. Equally, should a provision be estimated to be excessive or fully discharge the liability with funds remaining, the excess will be transferred back to the revenue account.

2.2 The Council's Constitution specifies that the Director of Finance executes accounting transactions, such as the creation and use of provisions, and creates and utilises reserves:

- Up to £0.5m per transaction without consultation;
- Between £0.5m and £1.5m in consultation with the Executive Portfolio Holder for Finance;
- Over £1.5m in consultation with the Leader, Deputy Leader and Executive Member for Finance.

2.3 Once a reserve has been established, authorisation to call upon the reserve can be delegated to an appropriate officer. The Director of Finance reviews all reserves regularly during the year, and specifically when closing the annual accounts and establishing the budget. Many reserves are directly managed by the Director of Finance, and all reserve transfers are handled through the accountancy function.

2.4 The General Reserve, Collection Fund, and Directorate Service Balance Reserves are specifically featured in the 10 monthly revenue budget monitoring reports. The overall reserve position is commented upon in the Robustness and Reserves sections of the budget report, and is specified within the statutory accounts. Capital reserves are detailed in the quarterly capital monitoring reports. Allocation of the General Reserve is by Council or Executive decision, the Collection Fund is released according to professional estimates made by the Director of Finance, and service reserves are determined by the relevant Corporate Director.

2.5 External Audit also provide a high level assessment of the adequacy of reserves as part of their closedown work, and the Accounts & Audit Committee are presented with a listing and summary movement in reserves as part of the closedown and approval of statutory accounts process.

3. Balances, Characteristics & Summary of Commitments

3.1 Details of each reserve, its purpose, the controlling officer, value at the beginning of 2014/15 and estimated commitments until the end of 2016/17 and remaining balance is provided in the attached annex. The values in the following table provide a summary of balances by category of reserve.

Table 1 :- Cash Backed Reserves by Category

Reserve Statement (estimated as at February 2015)	**Estimated Balance at 1 April 2014 (£000's)**	**Estimated Net Commitments 2014 to 2017 (£000's)**	**Estimated Balance at 31 March 2017 (£000's)**
Schools General	(13,252)	?	(13,252)
Schools Synthetic Pitches	(120)	(45)	(165)
Schools Total	**(13,372)**	**(45)**	**(13,417)**
Non-Schools Earmarked Reserves:			
Insurance	(3,421)	948	(2,473)
Revenue Projects	(1,675)	1,591	(84)
Employee Rationalisation	(2,414)	2,414	0
Transformation Reserve (including CFW Trans Res)	(1,474)	1,474	0
Services' Reserves	(983)	619	(364)
Smoothing Reserves	(3,803)	2,277	(1,526)
Total	**(13,770)**	**9,323**	**(4,447)**
General Reserve	**(10,980)**	**4,668**	**(6,312)**
Total of non-School Revenue Reserves	**(24,750)**	**13,991**	**(10,759)**
Capital reserves:			
Capital Projects	(27,315)	27,315	0
Total Capital Reserves	**(27,315)**	**27,315**	**0**
NDR Reserves	**(15,461)**	**15,461**	**0**
Accounting Adjustments	**(400)**	**0**	**(400)**
Total Accounting Reserves	**(15,861)**	**15,461**	**(400)**
Total All Reserves	**(81,298)**	**56,722**	**(24,576)**
Collection Fund – C Tax	**(385)**	**(142)**	**(527)**
Collection Fund - NDR	**15,388**	**(15,388)**	**0**
Total Collection Fund	**15,003**	**(15,530)**	**(527)**
Provisions	**(25,177)**	**21,206**	**(3,971)**
Total Reserves and Provisions	**(91,472)**	**62,398**	**(29,074)**

3.2 The above table reflects planned use however, it is entirely possible that reserves and provisions may need to be accessed differently to the plan. In particular schools reserves are assessed as part of the closedown procedure for final accounts, schools may access or increase their reserves during the year according to their need and own plans.

3.3 Capital reserves - Opening balance £(27.315)m

- Capital Reserves are so called as they are committed to support capital expenditure through the approved capital programme, however, it is the original source of the money that dictates the extent of its use:
- Revenue resourced £(1.109)m; can be used to support both revenue or capital expenditure. Revenue resources have been fully allocated to support investment in new technology (CRM and Content Management) and the residue costs of the Long Term Accommodation Strategy.
- Capital resourced £(26.206)m; can only be spent on capital projects. The Council develops the capital programme so that all known resources are committed against schemes over its 3 years and is reviewed on a quarterly basis and completely overhauled and reapproved each year.

3.4 Revenue reserves - Opening Balance £(24.750)m

- **Earmarked Insurance £(3.421)m:** The Council is largely self-insured and the reserve has been created from premiums to cover future claims, including resilience to cope with major claims. The Council insurance policies contain a significant "excess" of £275k for public liability and buildings. A risk assessment has recently been carried out and £0.530m has been released to the employment rationalisation reserve as detailed below.
- **Other Earmarked - Revenue Projects £(1.675)m, Employee Rationalisation £(2.414)m, Transformation Reserve £(1.474)m :** Thirteen individual reserves, of which seven are expected to be fully committed by 2017. The main reserves are for the costs of reorganisation and change (Employment Rationalisation, Transformation and Training) which total £(4.368)m. The employment rationalisation reserve has been increased by £1.4m to provide for the on-going costs of reorganisation; this has been financed by the realignment of the insurance reserve as mentioned above and the Airport Debt Restructure Reserve held within smoothing.
- **Smoothing £(3.803)m:** liabilities for normal operating expenditure are not always similar year-on-year, a good example being the local elections budget when there are elections only three of every four years. It has been the practice to even out this variable expenditure to recognise the underlying budgetary requirements of the base budget. The largest reserve relates to the Waste Levy £(2.278)m which aims to smooth the annual increases in the levy during the construction of the PFI facilities. A reserve of £(0.921)m was established to cover the potential default on an unsecured loan of £8.7m with Manchester International Airport. The Manchester Airport Group (MAG) is now in a much stronger financial position as evidenced in their latest financial trading statement; this has

allowed the reserve to be reduced accordingly releasing £1.149m which has been redirected to the Employment Rationalisation Reserve and General Reserve. The smoothing reserves, which are all fully committed, will grow and decline according to the characteristics of the relevant expenditure, and are reviewed and monitored carefully by the Director of Finance.

- **Service carry forwards £(0.983)m:** this is the total of service accumulated over and under spends carried forward from outturns since 2005. Technically these reserves form part of the General Reserve, but it is an internal accounting convention in line with the policy of the Medium Term Financial Strategy. This flexibility was introduced for service directorates to remove the incentive to 'spend up' to budget levels and reward good financial management. Any overspends are to be made good in the next financial year, and as part of the budget process Corporate Directors are required to include in their plans adequate action to recover their balanced position. The reserve includes the accumulated deficit on the Learning Disability Pool of £3.022m. Details of the background causing the accumulated deficit have been reported to the Executive on previous occasions. As part of the review of reserves during the budget process, it is not considered prudent to continue to carry forward the deficit indefinitely. As such, the total Learning Disability Pool deficit will be written down before the 2014/15 year end to a zero balance, using a contribution from the General Reserve.
- **General £(10.980)m:** the General Reserve is made up of previous budget underspends, and is primarily increased by Council-Wide budget outturns as Directorate Service Balance Reserves now accommodate service under and over spends in accordance with the Medium Term Financial Strategy policies. The largest planned movements are a £3.022m contribution to write down the LD Pool deficit as mentioned above and £2.007m to support the base budget in 2014/15, plus £1.582m as part of the in-year budget realignment agreed by Council on 17th September 2014. In addition an amount of £(1.0)m will be used to support the Council's revenue budget in 2015/16 as a result of the one off airport dividend received in 2014/15 from MAG. There is a legal requirement (section 26 of the LG Act 2003) for the Council to have minimum available reserves to deal with unexpected or emergency expenditure. The Director of Finance makes an assessment, for Council, of a minimum General Reserve level having taken into account other reserves and potential areas of risk in each Budget. The current minimum level is £6.0m (the details that support the calculation can be found in the 2015/16 Budget Report of 18th February 2015).

- **Collection Fund - Council Tax (£(0.385)m surplus, NDR (£15.388m) deficit -** The Collection Fund is the local taxation pool for Council Tax and Business Rates upon which the Government, GM Police and Crime Commissioner, GM Fire & Rescue Authority, Partington Town Council and the Council all precept upon. The Fund is managed on behalf of stakeholders by the Council. Any year-end balance on the Collection Fund is transferred to this reserve. A deficit must be corrected in the following year, which could cause a Council Tax rise all in itself. Any surplus arising is shared between the stakeholders and they utilise this within their budget estimates. The Council has anticipated a contribution of £0.300m in 2015/16 from the Council Tax Collection Fund surplus. The NDR deficit balance will be cleared down during 2015/16 using money set aside by the Council from the safety net grant paid by the Government in 2013/14 held within the NDR Deficit Reserve.

3.5 **Provisions - Opening Balance £(25.177)m:**

- All provisions have been deemed by the relevant expert to be required.
- The largest balance within provisions £(18.043)m, relates to the Council's share of the provision for outstanding business rates appeals. The level of this provision is reviewed regularly throughout the year using the latest details of settlements provided by the Valuation Office Agency. Details of any changes are reported as part of the overall business rates outturn forecast within the monthly budget monitoring reports.
- The main movement that is expected are the costs in discharging the remaining outstanding Equal Pay claims during 2014/15 of £1.856m. The balance on the Equal Pay provision £(1.0)m was released during 2014/15 to support the budget realignment as agreed by Council on 17th September 2014.
- There are also projected movements in insurance provisions (Third Party and Employers Liability) based on the assessment of outstanding liabilities as assessed by our actuary and also actual claims settled.

3.6 Schools Reserves £(13.387)m

- **Schools:** these balances relate to the net underspends in individual school budgets accumulated over the years under the general policy of delegated responsibility. These monies are the sole responsibilities of the Governors and Head Teachers, to be used at their discretion. Supportive action is provided to schools should they be in deficit, and the overall surplus provides for a loan support scheme. Excessive funds are a matter of Government policy. Should schools move to academy status any reserves are also transferred.

4. Conclusions

4.1 Total Council reserves at 1st April 2014 were £(81.3)m, of which £(13.4)m belonged to schools, £(27.32)m was committed to finance the capital programme, £(15.9)m of accounting adjustments largely relating to the Business Rates scheme, £(10.98)m General Reserve, leaving a balance of £(13.77)m. The majority of this balance resides in the insurance reserve £(3.4)m, Employee Rationalisation Reserve £(2.4)m to provide for the costs of reorganisation and Smoothing Reserves £(3.8)m to smooth the volatility in base budget fluctuations, such as the increase in the Waste Levy.

4.2 The estimated balance at March 2017 on non-school earmarked reserves, is £(4.447)m of which £(2.473)m relates to the insurance reserve and £(1.526)m Smoothing reserves. The remaining balance of £(0.448)m is largely made up from the service carry forward reserves of £(0.364)m.

4.3 The Council is required by law to maintain a minimum level of reserves to meet unexpected or emergency expenditure, which is currently established at £6m of the General Reserve after taking into account the existing earmarked reserves and their known commitments. Once all known commitments have been taken in to account, the General Reserve is estimated to stand at £6.3m at the end of 2015/16.

4.4 Total Council Provisions at 1st April 2014 were £(25.2)m, of which £(18.0)m related to the Council’s share of business rate appeals. The projected Provisions balance as at March 2017, excluding business rates appeals is £(3.98)m which represents the estimated outstanding value of insurance liability claims.

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Capital Reserves						
Earmark - ICT Development	Investment in new ICT to improve efficiency Council-wide.	CD T&R	(777)	777	0	Expenditure relates to support new CRM and Content Management System as part of capital programme.
Capital - LTA Decant	To cover the cost of accommodation changes arising from the Long Term Accommodation Project	CD T&R	(332)	332	0	Reserve is fully committed to the LTA programme and to cover residual running costs on admin buildings to be disposed of.
Capital Reserves : Revenue Resourced			**(1,109)**	**1,109**	**0**	
Capital Receipts - VAT Shelter	Income received from THT under a VAT sharing agreement. VAT is recovered by THT on work undertaken and shared with the Council	DoF	(7,452)	7,452	0	Capital receipts can only be used to support the Capital Programme or alternatively pay off the Council's debt. All capital receipts have been assumed to support Capital Programme

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Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Capital Receipts - Other	Income derived from sale of surplus assets to support the capital programme	DoF	(75)	75	0	Capital receipts can only be used to support the Capital Programme or alternatively pay off the Council's debt. All capital receipts have been assumed to support Capital Programme
Capital Related Grants	Capital Grants to support the capital programme	DoF	(17,008)	17,008	0	Fully committed to support the capital programme. Grants mainly relate to those from DfE to support the schools capital programme eg primary capital strategy and basic need
Capital Reserve	Reserve to support the capital programme	DoF	(1,671)	1,671	0	Full balance used against the draft capital programme 2015/17
Capital Reserves : Capital Resourced			**(26,206)**	**26,206**	**0**	
Sub-Total Capital Reserves			**(27,315)**	**27,315**	**0**	

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Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Earmarked Reserves						
Insurance Reserve	Funds earmarked for future claims and to carry out risk management initiatives.	DoF	(3,421)	948	(2,473)	The Council is largely self-insured and the fund (reserve) has been created from premiums to cover future claims, including resilience to cope with major claims. The Council insurance policies contain a significant "excess" of £275k for public liability and buildings. In any year the Council has stop-loss cover so that the annual maximum exposure to claims is £1.5m. The reserve is also used to offset any increases in provision for liability claims identified by the actuary. A review of the level of reserve has enabled £530k to be released to increase the employment rationalisation reserve
Library Book Fund	Funds earmarked for new library management system	DoCS	(60)	60	0	Will be utilised on Self Service Machine upgrade (£27k), Upgrading PC's used for Peoples Network (£14k) balance (£39k) will be utilised on wider roll out of e-books/e-readers.
Training	To undertake corporate training across the Council.	DoHR	(481)	481	0	Reserve in place to fund training and development interventions identified in respect to the Reshaping Trafford activity.

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Transformation	Money set aside to pump prime the achievement of the next stage of efficiencies through the Transformation Programme.	CD T&R	(1,474)	1,474	0	In order to maximise savings at the time of delivery, the costs of Transformation are now supported from the reserve rather than being charged to the saving. An additional team has been established specifically to manage the delivery of the savings targets with Adults Social Care and the identification of further savings opportunities..
Civic vehicle reserve	Replacement of mayoral vehicle	DoL	(24)	8	(8)	Annual sum set aside as depreciation from revenue budget
Voluntary Sector Grants Reserve	Carry forward of prior year spend due to slippage on projects	CD T&R	(108)	108	0	Created from past underspending on the approved budget. Expected to be drawn down over next three years..
Community Safety	Investment in Community Safety initiatives.	CD T&R	(22)	22	0	Fully committed in 14/15
Earmark Gen - Employment Rationalisation	To cover the cost of rationalising the employment of staff by the Council (i.e. severance pay)	DoF	(2,413)	2.413	0	To provide for severance and related costs above revenue budget provision. Reserve should cover approximately 3 more years of severance costs and has been increased by £1.4m from transfers from Insurance Reserve and MIA Debt Restructure Reserve

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
LAA Performance Reward Grant	Grant awarded in 2010/11, to be utilised in conjunction with partners	CD T&R for Leader	(666)	666	0	Leader has delegated authority to approve, based on views of Trafford Partnership. Reserve is fully committed over next two years.
Altrincham Forward	Support for Altrincham Forward and their improvement plans	CD T&R	(20)	0	(20)	Residue of reserve available to cover costs of Altrincham Forward
Coroner's Service Fees Reserve			(37)	0	(37)	Reserve set aside to smooth potential impact of higher than expected mortality rates in any year
Car Leasing Reserve			(3)	0	(3)	Reserve available to support unforeseen costs associated with early termination of individual car lease contracts
Community Rights to Challenge Reserve	Smoothing reserve established from prior year under commitments of Community Rights to Challenge Grant ring fenced to meet future costs.		(9)	0	(9)	Community Right to Challenge is the right for community organisations to submit an expression of interest in running services. Reserve is available to support peaks in additional administration associated with administering these rights.

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Assets of Community Value Reserve	Smoothing reserve established from prior year under commitments of Assets of Community Value Reserve ring fenced to meet future costs.		(8)	0	(8)	Assets of Community Value is the right for community organisations to submit an expression of interest in running a community asset. Reserve is available to support peaks in additional administration associated with administering these rights.
Local Welfare Assist Reserve	Smoothing reserve established from prior year under commitments of Local Welfare Assistance grant ring fenced to meet future costs.		(238)	238	0	Available to support one off unforeseen costs of individual cases of hardship.
Sub-Total Other Earmarked Reserves			**(5,563)**	**5,478**	**(85)**	

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Smoothing Reserves						
Legal Expenses	Smoothing reserve for external legal expenses and also contingency for potential back claims regarding changes in land charges	DoL	(142)	20	(122)	Exact amount of commitment on land charges is unknown and is dependent on level of potential claims.
MIA Debt restructure	Smoothing of airport debt restructure costs over the medium term	DoF	(921)	662	(259)	The Council agreed to an unsecured loan of £8.7m with MIA in return for an annual yield of 12%. The loan is not due for repayment until 2055. As it is unsecured there is a risk of default. A proportion of the interest earned is used as a provision for default. The MAG is now in a much stronger financial position as evidenced in their latest financial trading statement. This has allowed the reserve to be reduced accordingly releasing £1.149m which has been redirected to the Employment Rationalisation Reserve and General Reserve.

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Waste Levy	To smooth the effects on the Council's budget of movements in the waste levy over the medium term	CD ETO	(2,278)	1,370	(908)	Annual increases in the levy are volatile during the construction phase of the PFI facilities. We have opted for a smoother levy to build the base budget gradually. The reserve has also been used to finance late adjustments in the levy. It should be fully utilised by 2018/19.
Winter Maintenance	To smooth the effects on the Council's maintenance budget as a result of advserse weather conditions	CD ETO	(120)	0	(120)	This reserve was established in 2013 to provide emergency funds to cover the costs of highways & footpath maintenance during periods of adverse weather conditions
Elections	To smooth the elections budget across the 4 year Municipal cycle.	DoL	(187)	187	0	Used to smooth the costs of Elections cycle.

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Interest Rates	To smooth the effect on the Council's budget of volatile movements in interest rates.	DoF	(155)	38	(117)	"There are four main components: (i) a stepped interest loan will move into its secondary period in 2015 and will revert to a variable interest rate estimated a 6.5%, therefore this reserve will utilised as a cushion to cope if rates exceed the assumption : (ii) new borrowings have been postponed in the recent past and some of the financial benefit from this decision is being set aside to smooth the impact when borrowing does reoccur. (iii). for time when investment rates are lower than forecast (iv) provision for potential defaults on LAMS. Reserve adjusted to accommodate a 0.5% variation in interest rates on RBS loan of £100k and £17k set aside for potential default on LAMS cases. "
Sub-Total Smoothing Reserves			**(3,803)**	**2,277**	**(1,526)**	

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Delegated Service Budgets	LD Pool Reserve deficit carried forward Revenue budget under/overspends to be carried forward as part of the Council's Medium Term Financial Plans.	CD's	3,022 (4,005)	(3,022) 3,641	0 (364)	Commitments are updated monthly in budget monitoring report. Accumulated deficit on Learning Disability Pool has been written down in 2014/15 utilising a contribution from General Reserve.
Sub-Total Delegated Service Reserves			**(983)**	**619**	**(364)**	
General Reserve	Collation of previous underspends on the General Fund	DoF for Council or Executive	(10,980)	4,668	(6,312)	Commitments are updated monthly in budget monitoring report
Collection Fund						
Collection Fund (TMBC share) Council Tax Collection Fund Accumulated (Surplus)/ Deficit	Collation of previous underspends on the Collection Fund (Trafford Council Share)	DoF	(385)	(142)	(527)	Trafford's share of accumulated Council Tax Collection Fund balance. Used to support base budget.
NDR Collection Fund Accumulated (Surplus)/Deficit			15,388	(15,388)	0	Trafford's share of accumulated NDR Collection Fund balance. Deficit in 13/14 is off set by the NDR Deficit Reserve
Sub-Total Collection Fund			**15,003**	**15,530**	**(527)**	

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
Provisions						
VAT on Car Parking	Monies held pending outcome of litigation affecting all LA's re VAT on off-street parking	DoF	(172)	0	(172)	If the VAT tribunal/ court decision is not in our favour this money will be paid over to HMRC.
Employment Rationalisation	Severance agreements with staff which may or may not be taken up	DoF	(347)	347	0	An accounting requirement for redundancy payments to be made in 14/15.
Equal Pay	Liabilities under Equal Pay legislation.	DoF	(2,856)	2,856	0	The Council is actively trying to settle all remaining claims during 14/15 at an estimated cost of £1.856m, the remaining balance was released to support the budget realignment in 2014/15.
Third Party Insurance	Provision for self-insurance for Public Liability claims	DoF	(3,078)	(97)	(3,175)	This provision represents the estimated value of outstanding insurance liability claims. It is assessed annual by an actuary and will be drawn down as and when claims are settled.
Employers Liability Insurance	Provision for self-insurance for Employers Liability claims	DoF	(981)	57	(624)	This is assessed annually by an actuary and represents the estimated value of outstanding insurance liability claims.

Name of cash-backed reserve	Purpose	Officer*	Balance 31 March 2014 (£000's)	Net transfers in/out (£000's)	Expected Balance 31 March 2017 (£000's)	Note on commitment
NDR Provision for Appeals	Provision for back dated NDR appeals		(18,043)	18,043	0	This is assessed on a regular basis using information available from the VOA.
Total Provisions			**(25,177)**	**21,206**	**(3,971)**	

Key: Responsible Officers

DoF	Director of Finance
DoCS	Director of Customer Services
DoHR	Director of Human Resources
DoL	Director of Legal & Democratic Services
CD C&WB	Corporate Director for Communities & Well-Being
CD T&R	Corporate Director for Transformation & Resources
CD ETO	Corporate Director for Environment, Transport & Operations
CD EGP	Corporate Director for Economic Growth & Prosperity
CD's	Each respective Corporate Director

TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee**
Date:	**10 February 2015**
Report for:	**Information**
Report of:	**Head of Partnerships and Communities**

Report Title

Annual Governance Statement 2013/14 – update on significant governance issue : Locality Partnerships

Summary

This brief report provides an extract from the 2013/14 Annual Governance Statement outlining one of the significant governance issues identified for further development through 2014/15 i.e. the development of Locality Partnerships.

It also includes a brief update on the progress of the Locality Partnerships and a shift towards Locality Planning.

Recommendation

The Accounts and Audit Committee is asked to note the report for information.

Contact person for access to background papers and further information:

Name: Kerry Purnell
Extension: 2115

Background Papers: none

<u>Annual Governance 2013/14 Statement – Significant Governance Issue : Locality Partnerships</u>

1. Introduction

Detailed below is an extract from the 2013/14 Annual Governance Statement followed by a brief update on actual progress made to date in respect of one of the significant governance issues referred to in the Statement i.e. re the development of Locality Partnerships.

2. Annual Governance Statement 2013/14 Extract

2.1 The following detail was included in sections 5.3 and 5.4 of Trafford Council's 2013/14 Annual Governance Statement :

The Council is committed to achieving its objectives through good governance and continuous improvement. Going forward, the Council will continue to transform service delivery arrangements, to ensure the Council effectively delivers its objectives and manages its resources to meet the on going financial challenges being faced. Detailed below are significant governance issues and a summary of the actions planned to address these in 2014/15

2013/14 Issues and Action Planned 2014/15
3. Locality Partnerships Wider engagement with the community is essential for the Locality Partnerships (LP) to be successful. LPs need to engage interested stakeholders in their work to enable increased co-production of innovative solutions and local actions, using engagement to understand the opportunities and challenges which will influence future priorities. The shift from 'shadow boards' to established ones is underway, however to ensure transparency and openness, further clarity is required on how the LP will communicate, engage and work with local people. During 2014/15 further improvements will be addressed to improve communications and engagement including: • A webpage for each Locality Partnership will be created on the Trafford Partnership website to support communication and upon which 'pen' profiles of LP members, agendas, presentations, actions, updates etc. can be held. • The agenda will be published in advance allowing wider local contribution via LP members. • Membership of sub groups will come from a wider audience that just the LP members (which is already the case in some areas). Each LP will develop an Engagement Plan and in doing so should consider development of engagement events, social media presence, developing engagement channels between individual LP members, organisations and networks and how to engage all LP members in the work of the LP.

3. Updated position (January 2015)

3.1 Trafford has established four Locality Partnerships, made up of Councillors, partners including the police, health services and council, and Community Ambassadors. Their purpose is to:

- Increase resident and community involvement in local democracy and decision making, increasing service responsiveness and accountability
- Increase involvement in local priority setting
- Increase volunteering, increasing social cohesion, community capacity and resilience
- Enable improved engagement with residents and communities

3.2 Since being launched in April 2013, the Locality Partnerships have continued to meet to progress the priorities set in July 2013:

- Sale - maximising the economic and health benefits of Sale Town Centre.
  Sale Locality Partnership has secured £13,000 funding from the Our Place Programme to deliver a project which will explore where families access support and services, assessing how effective services are in reducing demand for more intensive statutory support and enabling families to be more resilient. The project is being led by Sale Moor Community Partnership and THRIVE, alongside a range of partners including Sale High School and Trafford Council's Stronger Families Programme.

- South - intergenerational activity, child obesity and anti-social behaviour.
  The South Trafford Locality Partnership has secured a total of £20,000 of funding from the Our Place programme to tackle isolation in older people The project is led by the Village Ward Vision Partnership and will identify those who are suffering from, or at risk of, social isolation and will develop and enhance locally responsive services which include a directory of services wellbeing survey. The project will develop a series of activities which raise awareness of isolation in the community.

- Urmston & Partington – using park and greenspace to tackle obesity in children and families.

  Three working groups have been established to increase the take up of community learning; to explore new ways to increase physical activity in hard to engage, and increase the use of green space, such as the Mersey Valley (supported by a successful £19k funding bid for improvement works).

- Old Trafford & Stretford – Child obesity and healthy eating, education attainment and youth employment.
  Improving where you live: The Locality Partnership is supporting small scale environmental improvements in by launching a small grants scheme. The partnership is keen to help local residents who live in an urban environment, to create a clean sustainable space of which they can take ownership. Grants of up to £250 are available for groups to enhance and improve a local communal space, such as an alleyway.

3.3 **Strategic considerations**
The Chair and Community Ambassador of each LP now attend the Strong Communities Board, ensuring a link between the strategic partnership and localities and there is one community representative on the Trafford Partnership Executive. In addition to their identified themes, the Partnerships have considered strategic issues such as the Trafford 2021 Vision, Trafford's Homelessness strategy and the delivery plans for the Third Sector Infrastructure contract.

3.4 **Voluntary Sector Grants**
Locality Partnerships have led the Council's 2014 Voluntary Sector Grants process to allocate £120,000 through participatory budgeting community engagement events. The partnerships are now forging links with those organisations awarded funds to network, mentor and monitor their progress.

3.5 **Community Engagement**
<u>Spring into Sale 29TH March 2014</u>
Across various locations in Sale town centre fun and healthy interactive activities were held by a range of partners and community organisations alongside a programme of performance delivered by talented local people. The Locality Partnership undertook a consultation exercise where attendees were asked what they liked best about Sale and what they would change.

<u>UPP Local Networking Event</u>
Urmston & Partington Partnership hosted an event on Thursday 27th November 2014 for community groups from across the area. Held at Flixton House, the event aimed to encourage organisations to connect, share ideas and resources and find out about funding opportunities to help with their respective ventures. Over 40 representatives from local groups across Urmston and Partington attended.

3.6 As part of the Locality Planning programme (see below) each Locality Partnership will be developing a comprehensive communications and engagement plan, which will include the use of web pages and social media.

3.7 **Asset Based Community Development (Abcd)**

The Trafford Partnership Annual Conference in April 2014,discussed a strengths based approach to connecting people at street level, and the role of Community Community Connectors, local volunteers who naturally build relations host conversations and value networks. Their activity can grow ‘associations of associations’ where ideas can be shared and acted upon providing an impetus for change.’ Abcd’ is being considered currently by the Locality Partnerships in their approach to locality planning and association of association events have been held in some areas. For more information please see www.traffordpartnership.org/aboutus/partnershipevent

3.8 **Locality Partnership review summer 2014**

During the summer 2014 a review was undertaken exploring the roles and responsibilities of Locality Partnerships aligned with the development of a strategic approach to locality working. Through conversations with key stakeholders from across the sectors, the review recognised progress to date and identified challenges and opportunities moving forward.

3.9 The positive observations:

- Locality Partnerships provide the bridge between statutory partners and communities and can encourage innovation and co-production.
- Community Ambassadors have benefited from seeing the bigger picture and their contributions ensure different perspectives are fed into what have been traditionally strategic (and often public sector) conversations.
- Strong value placed on the benefits of working in partnership.

3.10 Issues and Challenges identified with Locality Partnerships:

- There needs to be greater connectivity between the strategic partnerships, the third sector and neighbourhood and community partnerships (and therefore local action on the ground), using Locality Partnerships and Locality Plans as a vehicle to achieve this.
- There is a degree of confusion about the role of the Locality Partnerships with a perception, by some, that their defined membership means they are meetings making significant decisions behind closed doors.
- Elected Members need clearer guidance on the roles and responsibilities of Locality Partnerships and their role within them.

3.11 The review made 2 key recommendations:

1. Development of evidenced-based, outcome focussed locality plans which, have the buy in of all stakeholders across the Trafford Partnership and are owned by the community but held in trust by the Locality Partnerships.

2. The creation of Ward Assemblies within each locality to bring all ward members together to share information and enable a collective view of what matters in the locality to contribute to locality planning and to develop the scrutiny role by taking resolutions made by Ward Assemblies to the Executive and the Council. This recommendation is yet to be pursued.

These recommendations have been considered by the Council Executive.

3.12 **Issues and Challenges identified for locality working**
The following were identified through discussions with the Trafford Partnership Executive and the Stronger Communities Board. Locality Plans should seek to:

- Drive down demand
- Focus on outcomes not meeting structures and add value
- Enable a wider dialogue with residents and the third sector about how we can all work together to deliver values services in communities but in a different way, thus providing the impetus for continued community engagement led by the Locality Partnerships
- Take account of committed pieces of work
- Influence allocation of resources and public service reform
- Be live and dynamic.

3.13 **Locality Planning Programme**

3.14 The Trafford Partnership Executive has given a commitment to support Locality Partnerships in exploring how to develop locality plans and embed locality working in ways relevant to each locality. Each Locality Partnership may approach locality planning in a different way and at a different pace and may choose to widen membership to ensure the right people are around the table and engaged in the planning process.

3.15 A small steering group has been established to support the programme facilitated by the Partnerships and Communities service. The following framework has been suggested as a means to shape the locality planning process and to ensure that decisions taken by locality partnerships are evidenced based and intelligence led and that the requisite buy-in of key stakeholders has been achieved at both strategic, locality and frontline delivery levels. The suggested timeframes are subject to change.

3.16 The Locality Partnerships have the freedom to co-opt any person they see fit to on to the Partnership to help them develop effective community engagement and a locality plan.

3.17 It is proposed to hold a Trafford Council internal workshop on locality working to achieve commitment to the locality planning process from all services at a strategic and operational level and to achieve a shared understanding of what locality working means currently for services and what it might mean in the next 6 to 12 months in light of the Reshaping Trafford programme.

3.18

Outline Framework for Locality Planning

Stage 1 - Initial engagement (Nov 2014 to March 2015)

- Take the discussion to each Locality Partnership
- Brief and engage all ward members
- Further discussions with delivery agencies at Borough-wide level

Stage 2 – Thematic profiles (Dec 2014 to March 2015)

- Commission refresh of strategic data/intelligence & existing community intelligence
- Map & align current thematic strategies
- Review Priority Neighbourhood Action Plans
- Map community assets and networks
- Use the above to identify top 4-5 key challenges / opportunities in each locality

Stage 3 – Engagement with Thematic Partnerships (Jan to March 2015)

- Take discussion to TP Thematic Partnerships to identify key strategic priorities and direction for LP's and what this means for local delivery

Stage 4 – Locality Planning community engagement plans (Dec 2014 to March 2015)

- Locality Planning working groups, involving a range of key stakeholders, develop their plans for engaging the wider community in locality planning

Stage 5 – Locality Planning process sign off (March to April 2015)

- Share data outcomes and strategic directions with LP's
- Community engagement proposals presented and agreed by LP's
- Locality Planning process signed off at Strong Communities Board and Partnership Executive
- for each priority.

Stage 6 – Community Engagement (April to June 2015)

- Dialogue by Locality Partnerships with residents, businesses, neighbourhood partnership and third sector providers
- Community Engagement 'listening' (Appreciative Enquiry) event/s and/or through neighbourhood structures/ other community events

Stage 7 – Formation of Locality Plans (June to Sept 2015)

- Locality Partnerships review all information collected
- Locality Partnership agrees key priorities
- Outcome focussed SMART action plans developed for each priority with emphasis on meeting gaps in provision and on the Public Service Reform agenda.
- Links demonstrated between Locality Plans and Strategic priorities to ensure buy-in at all levels of the Trafford Partnership.
- Task/Finish or Working groups convened for each locality priority. Lead agency and/or Ward Member and/or Community Ambassador identified for each priority.

Stage 8 – Ongoing monitoring, review and engagement

- Locality Partnerships monitor, support and challenge delivery, and continue programme of community engagement to ensure priorities remain accurate and the community are actively involved in delivery of the plans

Locality Plans are owned by the Community and 'held in trust' by the Locality Partnership. They are dynamic, constantly reviewed for progress and blockages and updated as required.

TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee**
Date:	**10 February 2015**
Report for:	**Information**
Report of:	**Audit and Assurance Manager/Transformation Programme Manager/Acting Director of HR**

Report Title

Budget Monitoring Investigation – Action Plan Update (January 2015)

Summary

Following the issue of the report setting out findings from the investigation relating to the Council's budget monitoring arrangements, an Action Plan was subsequently agreed which was presented to the Accounts and Audit Committee on 25 September 2014. A further report was presented to the Committee on 19 November 2014 setting out progress to date against the Action Plan. Since then, further updates have been provided to the Corporate Management Team and this report provides the position at the end of January 2015.

The report provides an update on the position against each of the planned actions listed, providing a summary of action undertaken to date and ongoing work / future plans. In addition, the Organisational Development recovery action plan, which includes reference to a number of areas in the Budget Monitoring Action Plan, has been updated and is attached in the Appendix.

Recommendation

The Accounts and Audit Committee reviews the progress report and note that further updates are to be provided. This will include a summary of progress to date being reported within the Council's 2014/15 draft Annual Governance Statement.

Contact person for access to background papers and further information:

Name: Mark Foster, Audit and Assurance Manager
Extension: 1323

Background Papers: None

Budget Monitoring Action Plan

1. Background

Following the issue of the report setting out findings from the investigation relating to the Council's budget monitoring arrangements, an Action Plan was subsequently agreed, which was presented to the Accounts and Audit Committee on 25 September 2014. Since then, CMT have been provided with progress updates and the Accounts and Audit Committee received an update at its 19 November 2014 meeting.

This report provides a further update of details of progress made to date plus ongoing and further work planned to implement the improvements identified.

2. Action Plan Monitoring

As previously reported, a process was agreed with the Corporate Management Team whereby regular updates are provided in relation to the Budget Monitoring Action Plan which, in addition to providing updates of work undertaken against the Plan, also ensures evidence is provided by responsible officers of progress to date.

As part of the monitoring process, the Audit and Assurance Manager and Transformation Programme Manager have continued to liaise with key officers identified in the Plan to monitor progress and report on developments.

In addition, work was undertaken to look at the required performance management, cultural and training and development actions arising from the recommendations. An Organisational Development Recovery Action Plan was compiled by Human Resources and the latest update on this is shown in the Appendix. Where there is an overlap between the Budget Monitoring Action Plan and the Organisational Development Recovery Action Plan, this is shown in grey in the latter.

3. Summary of Progress to Date

Detailed progress against the Action Plan is shown in Section 4. This update is based on information gathered up to the end of January 2015.

As shown in the Action Plan, progress has been made in relation to each agreed action and a significant number have now been fully completed.

As previously reported, significant progress has been made within the Children, Families and Wellbeing (CFW) Directorate in establishing revised arrangements for budget monitoring. This includes :

- Individual named officers being allocated as responsible for individual budget headings.
- Revised procedures for sharing and reviewing financial information in line with the recommendations made.

- The establishment of a Finance Business Delivery Sub Group to ensure a greater focus on budget monitoring and accountability for managing budgets. A Learning Disability Sub Group has also been introduced.

Progress continues to be made across the Action Points including the ongoing implementation of the new Adult Social Care system (Liquid Logic). Initial work has been completed with the implementation of the care records and planning element of Liquid Logic in December 2014.

As previously reported, a number of developments had been made in respect of changes to the budget monitoring reports to provide clearer financial information to assist in monitoring through the year. Added to this, the timetable for producing the monitoring reports has recently been revised to enable more time for review and challenge of the financial information.

Progress has been made to further develop existing corporate guidance for services regarding budget management. A refreshed budget holder guide has been prepared and will be included in phase one of a training plan for budget holders, to be rolled out in February/March followed by a second more detailed phase in April/May.

4.Budget Monitoring Action Plan – Update (4 February 2015)

RECOMMENDATION	ACTION PLANNED	RESPONSIBILITY	TIMESCALE	ACTIONS UNDERTAKEN (Update January 2015)	WORK ONGOING / FUTURE PLANS (Where applicable)
1.The responsibility, accountability and control in respect of care budgets must be clearly identified as a matter of urgency and agreed with the Chief Executive, Corporate Director CFW and Director of Finance.	• Budget managers to be realigned and documented through Business Delivery	Interim Finance Manager -CFW Adults / Corporate Director CFW (DB) / Joint Director for Adults, Social Care (DE)	Completed August 14	An agreed documented list of budget holders accountable for specific budgets is now in place, agreed by the Business Delivery Group.	List of budget holders to be continually reviewed.
	• A Finance Business Delivery Sub Group to be established to hold budget holders accountable	Corporate Director CFW (DB) / Joint Director for Adults, Social Care (DE)	Completed August 14	The Business Delivery Finance Sub Group has been established, with weekly meetings held. Issues discussed are escalated to CFW SLT using a standard report format.	Agenda and structure of meeting to be regularly reviewed.
	• Monthly reporting will be presented to new Business	Interim Finance Manager -CFW Adults	Complete and business as usual	This process has been applied, commencing with	Process to continue and be refined as needed.

	Delivery Finance Sub Group, allowing time for comments and escalation of areas of concern to be evaluated and analysed.			the October 2014 report.	
	• Above to be confirmed with Chief Executive, Corporate Director and Director of Finance	Corporate Director CFW (DB) / Joint Director for Adults, Social Care (DE)	Completed	A presentation was given to the Chief Executive outlining the new approach. Details have been shared with the CFW Senior Leadership Team (SLT) and all above details have been shared with CMT.	CMT to continue to be provided with regular updates on progress against the Action Plan. There will be quarterly review meetings of the Corporate Director CFW, Director of Finance and key Finance and CFW managers to review arrangements and identify further improvements required.

2. The terms of reference / roles of groups and teams in CFW Adults (including Business Delivery Group and SLT) must be formally documented in terms of their respective roles in relation to managing and controlling budgets. This should include their purpose/role, who attends from both service and finance teams and the requirements of the groups/teams in terms of the content and frequency of financial information to be reviewed. There must be complete clarity and transparency in relation to who has prime responsibility for monitoring, managing financial control and providing assurance to the Corporate Director and Director of Finance.	Terms of reference for Business Delivery Groups across children's and adults to be aligned with SLT expectations.	Corporate Director CFW (DB)	Completed August 14	Terms of reference agreed by SLT.	
	• Business delivery Finance Sub Group established	Corporate Director CFW (DB) / Joint Director for Adults, Social Care (DE)	Completed August 14	Finance Sub Group Established, as above.	
	• Budget holders realigned	Interim Finance Manager -CFW Adults	Completed August 14	Accountability for each budget heading established.	List of budget holders to be continually reviewed.
	• Monthly reporting process agreed with timetable of one to ones for all budget holders with finance leads prior to completion of budget report		Completed September 14	Separate sub-directory established to hold monthly forecasts. All budget holders given access and training to review own areas in advance of meetings. Calendar of meetings set up for budget holders to arrange monthly meetings.	The process will be kept under constant review due to resource pressures as November to February will be particularly challenging with the implementation of the Liquid Logic system. Some prioritisation will be required. A new Finance Manager

					started on 19/1/15. A review of finance capacity to support budget holders will be completed in February 2015.
	All to be reviewed by Director of Finance and Audit & Assurance Manager	Director of Finance (ID) / Audit and Assurance Manager (MF)	Completed as part of ongoing review / report updates.	Meetings have been held with key officers to discuss progress as stated in this report and supporting evidence has been provided.	Audit and Assurance Manager / Transformation Programme Manager to continue to liaise with relevant officers and review evidence of progress provided to inform future updates to CMT and the Accounts and Audit Committee.
3.The disconnect in the monitoring of the Learning Disability recovery plan has contributed significantly to the overall position. The impact of the arrangements in place should be considered in the further investigation.	• Investigation Terms of Reference established to include the Learning Disability Recovery Plan • New Learning Disability Sub Group to be established	Director of Human Resources (JH) /Corporate Director CFW (DB) Corporate Director CFW (DB)	Completed Completed August 14	Details included within Terms of Reference Learning Disability Sub Group has been established	

				with an agreed Terms of Reference and is attended by relevant budget holders.	
	• Spreadsheet tracking all savings at case level to be established	Interim Finance Manager -CFW Adults / Accountant (GD)	Complete and on-going	The spreadsheet has been established in respect of Learning Disabilities. Its purpose is to provide detailed financial service provision information to support service and budget planning and savings delivery.	With the introduction of the Liquid Logic System, a series of monitoring programmes to be established, utilising the enhanced reporting capacity of the new system. The spreadsheet will need maintaining until Liquid Logic reports are created and tested.
4. Budget monitoring and reporting processes must be changed as a minimum to include the following improvements: • SLT in CFW must be provided with a summary of the exact budget information reviewed by the	• The full budget monitoring report to be presented to Business Delivery Group	Interim Finance Manager -CFW Adults / Corporate Director CFW (DB) / Joint Director for	First report presented Sept 14. Now business as usual.	This reporting process has been established.	Quarterly review meetings of the Corporate Director CFW, Director of Finance with key

Business Delivery Groups each month and the main assumptions used to forecast the year end position;	including line by line accounts. Summary of findings to be presented to SLT with an audit trail to public budget monitoring report	Adults, Social Care (DE)			CFW Directors and Finance staff will take place to monitor and review arrangements and identify any further improvements required.
• The monthly financial monitoring information produced by Finance must be distributed to relevant budget holders prior to Business Delivery Group meetings. When this is not possible it should be available for further review / action following the meeting;	• Timetable of reporting established • Budget holder one to ones established and timetabled for Sept budget report cycle	Previously Senior Accountant (JG) - now NK/TL. Corporate Director (DB) / Joint Director for Adults, Social Care (DE)	Completed Complete and on going	Timetables setting out relevant deadlines have been established. A calendar of meetings has been set up for budget holders to arrange monthly meetings. Financial information is placed in a shared folder for budget holders to access. During November / December the Finance Team had to focus on budget related work. Therefore 1:1	

				meetings were prioritised with those budget holders with responsibility for care and other high risk budgets. Budget holders with a low risk budget e.g. predominantly staffing had access to financial information to aid monitoring. All 1:1 meetings resumed in January.	
• The Business Delivery Group must ensure adequate time is provided for the monthly budget review and the minutes of this meeting must clearly set out the key points of the agenda item discussed, including assurances and key actions required as an outcome of that meeting;	• Set agendas to be agreed • Escalation process will flow into CFW SLT (to be tested in Sept)	Interim Finance Manager -CFW Adults / Corporate Director CFW (DB) / Joint Director for Adults, Social Care (DE)	Established and ongoing	Agreed agenda items include an item on escalating key issues. An escalation pro-forma is in place to highlight the issue, risks and actions to address this.	

• The Business Delivery Group must also receive, review and agree information formally reported as part of the monthly revenue budget monitoring reports to ensure that there is an awareness of details reported and also to provide challenge to any assumptions being made in respect of financial forecasts.	• Budget reporting process agreed • Timetable to be tested in Sept • All meetings are formally serviced and recorded.	Interim Finance Manager -CFW Adults / Corporate Director CFW (DB) / Joint Director for Adults, Social Care (DE)	Completed and ongoing	Process of reporting established with timetables in place. The monthly monitoring process was completed against the agreed timetable in November & December 2014. The BDG receives a detailed monitoring report each month. Members of the group have a week to provide feedback before the monitoring report for Members is produced	Process to be reviewed further in early 2015.
5.Budget holders within Adults must have adequate input into and ownership of budget planning processes, understand the compilation of the budget and have the opportunity to provide challenge in	• Training set up for budget holders	Interim Finance Manager -CFW Adults	Completed	Detailed meetings have taken place with BDG to explain the different elements of the formulation of the draft budget.	The budget proposals for 2015/16 are currently out for consultation. Relevant budget holders are fully engaged in the budget setting

the budget setting process; this includes liaison with Finance to agree/understand the different elements of the budget e.g. changes made due to demographic factors, legislative changes and any other assumptions which are relied upon for budget forecasting.	• Process for identifying and forecasting and allocation of assigned funds for Demographic Factors being reviewed currently • Agreements made that all changes to budgets must be agreed through Business Delivery Group and SLT	Interim Finance Manager -CFW Adults / Joint Director for Adults, Social Care (DE) Business Relationship Officer (DW) Interim Finance Manager -CFW Adults / Joint Director for Adults, Social Care (DE)	Completed Complete	Annual budget review took place by the Business Delivery Group in December 2014. It has been agreed that the practice going forward will be for all budget changes to be reported to Business Delivery and SLT for approval.	exercise. Process to be embedded into annual budget cycle and become usual practice.
6.Priority must be given to the development of the Liquid Logic IT system so that it is developed on time and the benefit of timely reports on activity and finance can be gained at the earliest opportunity. In the interim, there needs to be a short term solution to	• Monthly reporting from Liquid Logic project into SLT, Councillor Young updates in place • Exception reporting to CMT re any timeline changes in place	Joint Director for Adults, Social Care (DE) Corporate Director CFW	In place In place	A monthly highlight report is produced and the implementation programme is being closely managed. The Care Records and Planning element of Liquid Logic went live on	Implementation plan roll out will continue as planned with any issues escalated to SLT for resolution. Work continues on “go live” for the finance part of the Liquid logic system in April 2015.

link demand with impact.	to CMT • Historic data from IT system extracted to establish trends for monitoring with budget holders on a monthly basis.	 Interim Finance Manager -CFW Adults / Joint Director for Adults, Social Care (DE)	 In place and on-going	09.12.14 as planned. Completed as planned.	
7.Whilst it is recognised that there may be a need for minor local variances in how staff from respective Finance Teams support budget holders, a clearly established framework must be put in place to ensure that there is a consistent approach across the Council and that budget holders are clear about the level of service that they should receive from finance staff and therefore be clear about their responsibilities and their ability to challenge	Guidance will be drafted and consulted upon via Departmental Management Teams CMT to approve final version	Director of Finance	November 2014 (in progress)	As part of establishing a framework and clear responsibilities, a budget holder guide outlining budget holder responsibilities has been refreshed and shared with CMT.	Further work will be undertaken to assess how approaches to monitoring can be standardised across client teams and also consideration given to the most appropriate monitoring platform for use by budget holders. Phase 1 of a training plan for budget holders to be rolled out in February/March 2015.

Finance colleagues.					
8.Financial Management must ensure that staff are aware of, and operate, an escalation policy which would include both specific financial reporting arrangements and the Council's Whistleblowing Policy, to allow any finance related concerns to be raised at an early stage.	Staff will be reminded of existing whistleblowing policy and how to escalate financial concerns	Director of Finance	Completed in September 2014	A presentation was given by the Director of Finance to Finance Staff which highlighted expectations regarding reporting concerns.	Further steps will include incorporating coverage of this issue in future PDRs and consideration of further assessing staff awareness e.g. through a questionnaire.
9.Current budget monitoring and reporting arrangements must be strengthened as follows: • For demand led budgets in	 All budget holders and finance staff to be	Director of Finance / Interim Head of Financial Management	Completed and ongoing	Actioned as follows: The Budget Monitoring Report	

particular, there must be a commentary on service activity which provides a link to financial performance;	advised of revised standard of reporting.			from Period 5 onwards has included information on service activity in respect of Children and Adult Services.	
• Major assumptions used to forecast the financial position to the end of year must be included in all budget monitoring reports;				Budget Monitoring Reports now include major assumptions (as per reports from Periods 4 onwards).	
• Monitoring must be against gross expenditure and gross income, i.e. there must be no ‘netting off’ when explaining main budget variations;				This has been implemented as part of producing 2014/15 budget monitoring reports.	
• Senior managers and directors must be given the time and opportunity to comment on the content of the	Existing timetable for production of monitoring reports to be reviewed and agreed by CMT			As part of producing the Period 8 report, an extra week had been built in to the timetable to enable more time for	Ongoing review to assess impact of changes in timing.

budget monitoring reports before publication;				review/challenge. The revised timetable going forward has been agreed by CMT.	
10.Assumptions underpinning budgets must be reviewed each year to ensure that up to date assumptions are included as part of budget setting and subject to monitoring through the year.	Assumptions will be stated in budget planning reports and monitored via monthly reports during the year	Director of Finance / Interim Head of Financial Management	Completed and ongoing	Major assumptions are already included in budget setting reports e.g. The Period 6 monitoring report includes monitoring of those assumptions e.g. forecasts assume pay award at 1%.	
11.To ensure that budget holders are clear about their roles and responsibilities, the following actions must be taken: • a basic checklist of budget holders' responsibilities must be documented and circulated across the Council as a reference point for all budget holders.	CIPFA and external auditor to be consulted on best practice for roles and responsibilities and for training programmes.	Director of Finance / Interim Head of Financial Management/Audit and Assurance Manager	November 2014 (In progress)	Examples of guidance documents have been obtained from other local authorities. The External Auditor has also been consulted. As part of establishing a framework and clear responsibilities, a budget holder guide outlining budget	Budget holders to be provided with updated guidance in February/March as part of a two stage training plan.

This will ensure that relevant officers have the guidance needed, they are aware of their role and that of Finance Services within the budget monitoring process and there is adequate accountability. • as a minimum, for 'high risk' areas of the budget (to be determined by Corporate Directors and Director of Finance,) a training programme is developed and delivered as a priority.				holder responsibilities has been refreshed.	
12.Financial Management should research latest best practice on forecasting adult care demands at peer councils	Metropolitan, Unitary and London authorities to be contacted via Society of Municipal Treasurers for examples	Director of Finance	October 2014 (In progress)	Authorities have been contacted as planned. The Director of Finance has received	The learning from other authorities is that a responsive ICT system is a pre-requisite for

in considering arrangements going forward.	of best practice			responses from a number of local authorities that have volunteered to share their practice. The experience of speaking to other authorities is that all upper tier councils face pressure on their care services. A number had the same concerns as Trafford. Those confident about their control environment cited the need for up to date and detailed knowledge about individual client costs. Forecasting of future years' needs are based on data from POPPI (Projecting Older People Population Information developed by the Institute of Public Care).	monitoring social care costs. The Council will have this in place with the Liquid Logic system. The Finance module is scheduled for April, after all client records are up to date.

13.Financial Management should consider introducing new checks and balances to add to verifying the accuracy of budget monitoring, including all assumptions made.	Evaluation of options and benefits to be carried out	Director of Finance / Interim Head of Financial Management (GB)	October 2014 (In progress)	The budget monitoring timetable has been expanded to allow for more time to review monthly reports. Assumptions are being stated in budget monitoring reports after discussion with budget holders. The focus is currently on equipping budget holders to manage budgets and ensure effective monitoring is taking place through the respective Directorate management teams.	Work ongoing in respect of documenting roles and responsibilities and providing guidance/training to budget holders incorporating expectations re monitoring.
14.The format of budget monitoring of CFW be changed to split it back into the three main components of Adults, Children and Public Health, with a brief	Actioned	Director of Finance / Interim Finance Manager -CFW Adults	Completed August 2014	This was implemented (as per the Period 4 budget monitoring report).	

overarching set of consolidated figures.					

<u>ORGANISATIONAL DEVELOPMENT – RECOVERY ACTION PLAN</u> **Appendix**

<u>January 2015</u>

Recommendation	**Action planned**	**Responsibility**	**Timescale**	**Actions Undertaken (Update January 2015)**	**Work On-going / Future Plans (where applicable)**
1) Adults' Service Managers need to be fully integrated into CFW to ensure that they understand their collective responsibilities for the whole service. *This recommendation links into a wider need to review and develop a "uniform" culture across CFW*	1. 1 Review/revisit the Directorate Values (and underpinning principles) that were developed via the 2013 "Values and Culture" workshops and determine if they are still valid. 1.2 Amend if required (ensuring that the content supports and underpins the corporate objectives and values, embeds a "One Trafford" approach and aligns to the current context of Reshaping Trafford) and communicate/cascade through the management meetings structure. 1.3. Assess if any additional training and development interventions are required and implement.	DB DB, with LH/AB DB, with LH/AB	Completed November 2014 In progress November 2014 – January 2015	Met with DB 17.12.14 and following discussions have agreed the following actions: The Directorate Charter, which sets out the Vision and operating principles, has been reviewed &, whilst they were valid to integrate the former two Directorates in 2013/14, they should now be incorporated into a wider review of Corporate Values. Under the Supporting Change to Happen Strategy, Reshaping Trafford values were identified, which complement & strengthen our existing values &	Combine the existing & the Reshaping Trafford values. Hold cross-council

	1.4 Evaluate the impact of the training and development interventions.	LH/AB	February 2015 & on-going	these now need to be combined, communicated and embedded across the organisation.	behaviour workshops to embed these aligned to the CFW programme.
	1.5 Continuously monitor the culture and behaviours, ensuring that there is no drift back to a "silo" mentality	DB	February 2015 & on-going	This approach fits with addressing any silo mentality and re-enforces a 'one Trafford Approach'. As a result, the timescale for this exercise needs to be revisited to capture the wider brief.	
	1.6 Maintain the profile of the required culture and behaviours through a standing item on the Wider Leadership Team quarterly meetings – with team leaders tasked with cascading to all staff.	DB	Completed/ on-going	The next WLT is taking place on 19.12.14. All WLT meetings provide the opportunity for staff to engage across the Directorate, which supports the development of the right culture and behaviours. Whilst 'Culture' won't be a named standing item, it will 'thread' through all discussion topics.	

Recommendation	Action planned	Responsibility	Timescale	Actions Undertaken (Update January 2015)	Work On-going / Future Plans (where applicable)
	1.7 There is an existing Workforce Strategy and Action Plan for CYPS; there is a need to determine whether there is an equivalent for Adults and to what extent these are fully integrated.	DB, with DQ/LH/AB	Completed November 2014	HR to pick up discussion with Diane Eaton and John Pearce for an integrated approach. w/c 24.11.14 From the discussions that took place at the meeting, a working group of HR/OD leads across Trafford and Health will work together to develop an integrated strategy and steer work packages flowing from the CFW programme.	To develop an integrated Workforce strategy for CFW that reviews work already undertaken as part of the Directorate integration programme. An outline of structure and governance arrangements will be available by end of January.
	1.8 Review arrangements for wider leadership meetings to ensure there is full representation across the Directorate	DB	Completed November 2014	Arrangements were reviewed prior to integration and there has been full representation across Directorate. Structured meetings cover a wide range of topics to reach and inform the wider workforce.	

Recommendation	Action planned	Responsibility	Timescale	Actions Undertaken (Update January 2015)	Work On-going / Future Plans (where applicable)
2) CFW & Finance Managers are developed to ensure that they have the relevant people management skills to be able to lead, develop, motivate and manage the performance of their staff.	2.1 A Management Development Programme (Mobilising for Change) is being rolled out across the Council, delivered by NWEO 2.2 All CFW & Finance managers mandated to attend Phase Two Mobilising for Change Coaching Skills Training	LH/AB LH/AB	Delivered in August and September 2014 January 2015 – on-going	HR to commission training from NWEO to meet needs and in discussions to develop a bespoke training programme to improve their ability to challenge, probe, question and test assumptions. This training to be rolled out early January 2015 A management development programme that supplements the Mobilising for Change programme - Grow your Own Social Care Leadership programme is currently being attended by 7 CFW managers: Currently running drop-in and briefing sessions for staff and managers on the new PDR process. New dates have been scheduled for effective PDRS using a coaching approach and CFW and	Those CFW & Finance managers who didn't attend the phase 1 programme will take part in mop up sessions and mandated to attend the Reshaping Trafford (Mobilising for Change) phase 2 development programme. Sessions to be advertised to staff through Reshaping Trafford webpages, and through targeted invitations to staff.

				Finance Managers will be targeted to attend.	
	2.3 Management Guidance to be developed and implemented across the Council, setting out the key roles and responsibilities expected of a Trafford Manager (including the requirement to undertake regular 1-1's/supervision, team meetings, etc.). To include the basic checklist of budget holders' responsibilities (see Ref 5.)	LH/AB	December 2014 – on-going		
	2.4 Managers to receive mandatory skills training on implementing the new PDR process	LH/AB	November / December 2014 – on-going	A bespoke training course is also being developed by NWEO on 'Constructive Challenge' to be rolled out to CFW and Finance Managers.	
	2.5 Undertake a 360 degree exercise for the CFW wider leadership group (to include Health colleagues) & Finance Managers.	LH/AB	January – March 2015	To be reviewed and picked up as part of 1.7 and the development of the integrated workforce strategy.	Finalise the content for the Constructive Challenge session and schedule dates

	2.6 Explore training options to support CFW & Finance managers to improve their ability to challenge, probe, question and test assumptions 2.7 Review the September 2013 Performance Management Report & the accompanying November 2013 Performance Management Implementation Plan & revise, as appropriate, in consultation with HR	LH/AB DB	November 2014 November / December 2014		for CFW and Finance Managers as a priority.

Recommendation	Action planned	Responsibility	Timescale	Actions Undertaken (Update January 2015)	Work On-going / Future Plans (where applicable)
3) Budget holders within Adults must have adequate input into and ownership of budget planning processes, understand the compilation of the budget and have the opportunity to provide challenge in the budget setting process; this includes liaison with Finance to agree /understand the different elements of the budget e.g. changes made due to demographic factors, legislative changes and any other assumptions which are relied upon for budget forecasting.	3.1 Training set up for budget holders 3.2 Process for identifying and forecasting and allocation of assigned funds for Demographic Factors being reviewed currently 3.3 Agreements made that all changes to budgets must be agreed through Business Delivery Group and SLT	MA DW/DE/MA MA/DE			

Recommendation	Action planned	Responsibility	Timescale	Actions Undertaken (Update January 2015)	Work On-going / Future Plans (where applicable)
4) Whilst it is recognised that there may be a need for minor local variances in how staff from respective Finance Teams support budget holders, a clearly established framework must be put in place to ensure that there is a consistent approach across the Council and that budget holders are clear about the level of service that they should receive from finance staff and therefore be clear about their responsibilities and their ability to challenge Finance colleagues.	4.1 Guidance will be drafted and consulted upon via Departmental Management Teams 4.2 CMT to approve final version	ID CMT			

Recommendation	Action planned	Responsibility	Timescale	Actions Undertaken (Update January 2015)	Work On-going / Future Plans (where applicable)
5) To ensure that budget holders are clear about their roles and responsibilities, the following actions must be taken: • A basic checklist of budget holders' responsibilities must be documented and circulated across the Council as a reference point for all budget holders. This will ensure that relevant officers have the guidance needed, they are aware of their role and that of Finance Services within the budget monitoring process and there is adequate accountability	5.1 CIPFA and external auditor to be consulted on best practice for roles and responsibilities and for training programmes	ID/MF			
	5.2 Incorporate the checklist into the Management Guidance (see 2.3)	LH/AB	November 2014 (In progress)	The Interim Head of Financial Management advised that a guidance document has been drafted and shared with	The guidance document for budget holders, once finalised, will be incorporated into the wider management guidance.

				Finance Managers and Transformation.	

Recommendation	Action planned	Responsibility	Timescale	Actions Undertaken (Update January 2015)	Work On-going / Future Plans (where applicable)
6) To ensure that budget holders are clear about their roles and responsibilities, the following actions must be taken: • As a minimum, for 'high risk' areas of the budget (to be determined by Corporate Directors and Director of Finance,) a training programme is developed and delivered as a priority.	6.1 CIPFA and external auditor to be consulted on best practice for roles and responsibilities and for training programmes	ID/MF			
	6.2 **NEW** Once consultation has taken place, liaise with Workforce	ID/MF	In progress	HR to commission robust budget management training, including	Training programme to be devised when best practice has been determined and

	Strategy team with respect to the development or commissioning of a relevant training programme.			accountability and decision-making, once learning objectives identified.	the checklist referred to in ref 5.2 finalised.
7) Financial Management must ensure that staff are aware of, and operate, an escalation policy which would include both specific financial reporting arrangements and the Council's Whistleblowing Policy, to allow any finance related concerns to be raised at an early stage. (Whistleblowing)	7.1 Staff will be reminded of existing Whistleblowing Policy and how to escalate financial concerns.	ID			
Recommendation	**Action planned**	**Responsibility**	**Timescale**	**Actions Undertaken (Update January 2015)**	**Work On-going / Future Plans (where applicable)**
8) Undertake a survey of finance staff in respect to training and development needs, to ensure that the service has the appropriate skills and knowledge to	8.1 Survey completed 8.2 Review the findings and deliver training to all finance staff to address generic / ICT-specific training needs	LH LH/AB	Completed September / October 2014 November – January 2015	Review Survey and progress generic training needs. Training needs being addressed and dates being scheduled in to	

meet future challenges – and to put in place succession planning strategies.	8.3 Assess professional qualification and development requirements alongside restructure proposals. 8.4 Consider and approve professional qualification applications, as appropriate – either as conditional for the post or as part of the succession plan.	LH/AB LH/AB	In progress November 2014 – January 2015 In progress January / February 2015	meet needs identified.	Consider access to qualifications and retention/succession planning.

Officer Key:

DB: Deborah Brownlee, Corporate Director, Children, Families and Well being
DE: Diane Eaton, Joint Director of Adult Social Care
MA: Mark Astbury, Finance Manager (interim), Adult Social Care
ID: Ian Duncan, Finance Director
MF: Mark Foster, Audit & Assurance Manager
LH: Lisa Hooley, Acting Director of HR
AB: Angela Beadsworth, Acting Head of Workforce & Core Strategy
DQ: Debbie Quinn, HR Business Partner