West Lindsey District Council

Guildhall Gainsborough
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AGENDA

<u>This meeting will be recorded and the video archive published on our website</u>

Governance and Audit Committee
Tuesday, 14th January, 2020 at 2.00 pm
Council Chamber - The Guildhall

Members: Councillor John McNeill (Chairman)
Councillor Mrs Jackie Brockway (Vice-Chairman)
Councillor Mrs Tracey Coulson
Councillor Christopher Darcel
Councillor David Dobbie
Councillor Mrs Caralyne Grimble
Councillor Mrs Angela White
Alison Adams
Andrew Morriss
Peter Walton

1. **Apologies for Absence**
2. **Public Participation Period**
   Up to 15 minutes are allowed for public participation. Participants are restricted to 3 minutes each.
3. **Minutes of Previous Meeting** (PAGES 3 - 8)
4. **Members Declarations of Interest**
   Members may make any declarations of interest at this point but may also make them at any point during the meeting.
5. **Matters Arising Schedule** (PAGE 9)
   Matters Arising schedule setting out current position of previously agreed actions as at 6 January.
6. **Public Reports for Consideration**
   i) Certification of Grants 2018/19 (PAGES 10 - 13)

   ii) Draft Treasury Management Strategy, Minimum (PAGES 14 - 76)

Revenue Provision (MRP) Policy and Draft Capital Investment Strategy

iii) External Audit Strategy Memorandum (Plan) for 2019/20 (PAGES 77 - 101)

iv) Annual Governance Statement 2018/19 Action Plan Update (PAGES 102 - 107)

v) Combined Assurance Report 2019/20 (PAGES 108 - 125)

vi) Draft Internal Audit Quarter 3 Progress Report 2019/20 (PAGES 126 - 140)

7. **Workplan** (PAGES 141 - 142)

Ian Knowles
Head of Paid Service
The Guildhall
Gainsborough

Monday, 6 January 2020

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Council Chamber - The Guildhall on 15 October 2019 commencing at 2.00 pm.

Present:	Councillor John McNeill (Chairman)
	Councillor Mrs Jackie Brockway (Vice-Chairman)
	Councillor Christopher Darcel
	Councillor David Dobbie
	Councillor Mrs Caralyne Grimble
	Councillor Mrs Jessie Milne
	Councillor Mrs Angela White
	Alison Adams
	Andrew Morriss
	Peter Walton

In Attendance:

Alan Robinson	Monitoring Officer
Tracey Bircumshaw	Strategic Finance and Business Support Manager
James O'Shaughnessy	Corporate Policy Manager & Deputy Monitoring Officer
John Sketchley	Internal Audit
Natalie Kostiuk	Customer Experience Officer
Ele Snow	Democratic and Civic Officer

Apologies:	Councillor Mrs Tracey Coulson
Membership:	Councillor Mrs Jessie Milne was appointed for this meeting only

20 PUBLIC PARTICIPATION PERIOD

There was no public participation.

21 MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 25 July 2019 were approved as a correct record.

22 MEMBERS DECLARATIONS OF INTEREST

None.

23 MATTERS ARISING SCHEDULE

The matters arising schedule was noted.

24 ANNUAL FRAUD REPORT 2018/19

Members considered the Annual Fraud Report for 2018/19. The Strategic Finance and Business Support Manager explained there had been three instances of fraud identified across the year, those being assumed thefts from car parking machines, one email request to transfer funds to a Councillor and one instance with SureStaff. There was also £20,000 worth of housing and council tax fraud identified.

There was discussion regarding the assumed thefts from car parking machines and it was clarified that there had been different amounts of money missing on different days. An internal investigation had included the machines being checked for faults or evidence of tampering, however this had been ruled out. It was confirmed that while there had been no evidence to pursue anything further, there had been changes made following discussions with the contractor in charge of emptying the machines and the discrepancies had since stopped.

It was further clarified that the housing and benefits fraud amounts had been separate cases of similar amounts and action was taken to recover the monies. A Member of Committee commented on there being such a low incidence rate of fraud across the council and the Strategic Finance and Business Support Manager highlighted the number of substantial assurances awarded by the auditors in terms of controls in place.

The Chairman thanked the Strategic Finance and Business Support Manager for a clear report adding the format was much improved on previous years.

> **RESOLVED** to endorse the content of the report and support the ongoing counter fraud work to protect the Authority’s interests.

25 INTERNAL AUDIT QUARTER 2 REPORT 19/20

The Committee heard from John Sketchley, Audit Team Leader, regarding the 2019/20 quarter two audit report. He highlighted to Members the work that had been undertaken since the report was drafted. The Vulnerable Communities report had been at draft stage but was now at the final version; Key Controls – Financial Resilience was in the final stage and the Corporate Plan Delivery and the Golden Thread was substantially complete. It was explained that, at the time of writing the report, the work in progress had been slightly behind schedule however as a result of the work completed as detailed above, they were currently at a delivery rate of 48% against a target of 52%, which was an improved picture to that detailed in the report. The Audit Team Leader highlighted the other areas of interest in the report such as the outstanding recommended actions, both of a medium priority, and the overall view of this year’s audit plan. He confirmed that the plan would be completed within the year.

A Member of Committee enquired about the outstanding action points, in particular noting that there was one outstanding from November 2018. The Corporate Policy Manager explained that the action, regarding the Customer First strategy, had been given an original completion date of 31 March. It was acknowledged that, due to the involved nature of the Customer First work programmes, the original completion date had been overly ambitious. The Committee heard that each element of the strategy had a different lead and there had also been a change of sponsorship in the intervening period. The Corporate Policy Manager stated that sign off was due to happen by 31 October 2019 and the sponsorship sign off from the retired Executive Director of Operations / Head of Paid Service to the Executive Director of Resources / Head of Paid Service / S151 Officer would also be finalised at that point.

There was discussion around the length of time that was acceptable for an action to be outstanding. The Monitoring Officer explained there was no rule about it and acknowledged delays could be disappointing but the Committee received such details for the reason of monitoring actions and delays. He highlighted that for this action in particular, there had been more complications than anticipated but it was more important to do it right rather than do it quickly.

A Member of Committee acknowledged that there were fewer actions out of time than had previously been experienced but requested further updates on those actions. The Chairman suggested that where there were delays, greater detail could be included in the report in order to inform the Committee of current status. The Corporate Policy Manager highlighted that for the strand of work in question, there had been five recommendations in total with only the one outstanding. He highlighted that this demonstrated the work had been focussed on but acknowledged the deadline for that one outstanding action had likely been overly optimistic.

RESOLVED to note the report.

26 LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER 2018/19

The Committee heard from the Customer Experience Officer regarding the complaint referrals to the Local Government Ombudsman (LGO) for 2018/19. It was summarised that 20 complaints had been referred to the LGO, the majority of which had been related to planning matters as was normal for Local Authorities, in total six had been upheld. Four had initially been referred in 2016 and 2017 but were complex complaints and the actions had already been implemented. The Customer Experience Officer highlighted that to date, there had only been five complaints referred to the LGO and the one complaint to have been upheld had been referred in the previous year. To date, no complaints referred to the LGO in the current year had been upheld.

A Member of Committee enquired as to how the council communicated with a complainant when the LGO upheld their complaint. It was explained that the final response would be communicated formally in writing but there would usually be verbal communication throughout the process. There was also discussion regarding the issue of maladministration and whether this was the same across all complaints it referred to. It was explained that there were different aspects covered within the one area, such as processes not being followed or procedures being incomplete. It was clarified that if there was an individual officer identified as responsible, their team manager would deal with any resulting actions, however, where there were failings within a procedure, it would be reviewed and amended as necessary. Training would be rolled out to all officers as appropriate and lessons learnt would be built into the working processes.

The Chairman thanked the Customer Experience Officer for a clear and concise report and suggested that, given the changes to the complaints process in the past year, a further audit could be considered in the future.

> **RESOLVED** to welcome the report from the Local Government Ombudsman and acknowledge the work which has been undertaken to incorporate the learning from the report's findings into how West Lindsey District Council works as an organisation.

27 MEMBER DEVELOPMENT - ANNUAL REPORT

The Democratic and Civic Officer introduced the Annual Report for Member Development. She explained that it focussed on the May 2019 Induction Programme, covering attendance figures, feedback and suggestions for the future. She highlighted to the Committee that the first meeting of the Member Development Group had met and identified their priorities for the coming months and years. It was summarised that the main priorities were the introduction of online training options; the development of a comprehensive induction for Councillors joining through a by-election; and initial preparations for the 2023 Induction Programme, taking into account the lessons from May 2019.

The Committee discussed the benefits and pitfalls of online training and it was clarified that face to face sessions would still be undertaken – the online options would not be the only training provision. The Democratic and Civic Officer explained how online training was implemented for Officers and the range of training courses that were available through the existing providers. It was also queried how it could be monitored whether Councillors were undertaking the online courses. The Chairman confirmed that the online training would be accessed via personal log-in details and completed courses would be recorded within the training system, meaning it would be straightforward to see who had completed which courses. He added that most courses included 'check your understanding' sections meaning it was also possible to assess whether the training had been beneficial or not, however, as with most development sessions within the council, there was no power with which to mandate Councillors to attend or complete such training. The Monitoring Officer highlighted that any Member who did not attend the committee specific mandatory training would not be able to sit on that committee, but there were no such sanctions for other training or development sessions.

A Member of Committee enquired about the reduced attendance rate through 2018/19, from an average of a third of Councillors attending, to a fifth of Councillors that year. It was explained that attendance figures did tend to fluctuate and that the final year of a four year term was usually quieter both in terms of sessions offered and numbers attending. The Corporate Policy Manager explained that attendance figures and satisfaction levels were now recorded through the performance and delivery measures and that for the current year, attendance was running at around 42%, which was slightly above previous average attendance levels.

The Chairman confirmed that the Member Development Group would be meeting again in

November and would move forward with the online training options.

RESOLVED that:

(1) Members accept the report as an accurate reflection of Member Development over the past municipal year;

(2) Members approve the priorities as identified by the Member Development Group, those being: online training options, the induction process for Members elected through by-elections and initial work on the full 2023 Induction Programme;

(3) Members agree to receive a further report no later than April 2020 in which options for alternative methods of delivery (ie, online training options) will be detailed and approval sought for actions in the 2020/21 municipal year.

28 WEST LINDSEY DISTRICT COUNCIL RISK STRATEGY 2019-2023 AND SIX-MONTHLY REVIEW OF STRATEGIC RISKS

The Committee gave consideration to a report from the Corporate Policy Manager which covered both the Risk Strategy 2019-2023 and the six monthly review of strategic risks. He explained that, based on the new Corporate Plan, there had been slight amendments to the risk strategy. He reminded Members that the risk strategy was ultimately how much risk the Council was prepared to take in any given scenario. He highlighted that the risk appetite for the Council had been assessed as 'creative and aware', willing to consider all potential delivery options, and that ethos underpinned the whole strategy.

The Committee heard of one amendment regarding the consideration of both inherent risk (an estimation of the worst case scenario if the risk were to occur) and target risk (the reality if the risk were to occur once all mitigations were in place). The re-confirmed scoring matrix, a 4x4 matrix of likelihood and impact, was also highlighted within the report. The Corporate Policy Manager explained that work had been undertaken in recent years to ensure that risk awareness was inherent in day to day activity and the Council had been praised for this approach by Internal Audit. It was important for this to be maintained.

There was discussion regarding the accessibility of the risk strategy and the clear thread through the organisation that ensured everyone was aware of their risk responsibility. It was agreed that the document explained the information in a clear and concise format and was easy to navigate around.

Following a question from a Member of Committee regarding cases of data loss across the Council, the Corporate Policy Manager introduced the second part of the report regarding the six monthly review of strategic risks. He explained that the assessment template detailed what the triggers might be, the potential impact, the current controls in place and any other areas of consideration. Using the example of information security, the likelihood of it happening was high, despite the measures in place and the structures needed to be as robust as possible. The fact that there had not been significant losses was likely to be the strength of the systems but there always needed to be structured discussion around the likelihood, the impact and how to reduce both.

There was discussion regarding the risks included in the report and whether there were any marginal risks not covered. Members heard that all risk areas were based around the delivery of the Corporate Plan and that if any service risks impacted on strategic delivery, they would be referenced in the report. Members engaged in discussion around the risks that sat outside of the control of the District Council and it was confirmed that there was a role for the Council to play, for example in education. The Corporate policy Manager explained several initiatives that were running across the Council with the aim of making small improvements where possible. He gave the example of work experience placements for students and a mentoring scheme that had been running successfully for over 12 months.

With regards to the impact Brexit may have on the Council's commercial ventures, it was confirmed that nothing could be done currently about the unpredictable impact there may be, but the Council was aware of the need to keep monitoring such risks. The planning and preparation for Brexit had been about the continuation of providing critical services, for example in case of blockades, and ensuring plans were in place to offset any difficulties as they arose.

RESOLVED that:

(1) Members approve the Council's Risk Management Strategy 2019 – 2023;

(2) Members be assured that strategic risks were being captured, considered and managed effectively.

29 WORKPLAN

The work plan was noted. The Corporate Policy Manager stated that the combined assurance report would be presented to Committee in March 2020.

The meeting concluded at 3.12 pm.

Chairman

Governance & Audit Committee Matters Arising Schedule

Purpose:
To consider progress on the matters arising from previous Governance & Audit Committee meetings.

Recommendation: That members note progress on the matters arising and request corrective action if necessary.

Matters arising Schedule

Meeting	Governance and Audit Committee

Status	Title	Action Required	Comments	Due Date	Allocated To
Black	Modern slavery training	At the Corporate Policy and Resources meeting on 19 September 2019 one of the recommendations from the Modern Slavery Statement report was to refer the subject of modern slavery training to the Governance and Audit Committee for them to look at on their workplan.	**It is believed that this is being picked up by the Member Development Group at present - this is to be confirmed with the Chairman at committee.** **Confirmed at Committee on 15 October 2019 that this training will be addressed through the Member Development Group.**	15/10/19	James Welbourn
Green	Pensions Mistatements	The Chairman of Governance and Audit requested that misstatements be covered as part of the Accounts Closedown paper in March.		10/03/20	Caroline Capon
Green	Leisure Contract	The Chairman of CPR committee at its meeting on 7 November asked Governance and Audit committee to 'send a note' on how the leisure contract is overseen from a Member perspective.	**Briefing note to be prepared for Members on the Leisure Contract by the Monitoring Officer and relayed to Members of CPR by being added to his annual report.**	10/03/20	Alan Robinson

Agenda Item 6a

Governance and Audit Committee
Tuesday, 14 January 2020

Subject: Certification of Grants 2018/19

Report by:	Executive Director of Resources
Contact Officer:	Caroline Capon Corporate Finance Team Leader caroline.capon@west-lindsey.gov.uk
Purpose / Summary:	To present the Housing Benefit Subsidy Claim Audit for 2018/19 from our External Auditor, Mazars.

RECOMMENDATION(S):

1. **That members accept the contents of the report**

2. **That members agree to accept this report through the West Lindsey Members' Bulletin in future. It will return to Governance and Audit Committee if there are errors to report which are higher than triviality (£26,000) as detailed annually by our External Auditors, Mazars.**

IMPLICATIONS

Legal: None arising from this report

Financial : FIN/145/20/CC

The cost of the Housing Benefit Subsidy Audit resulted in a charge of £6,100 (£5,796 in 2017/18) the core fee was £5,800 however additional testing was required resulting in an additional half day of work at a cost of £300 and this has been contained within the revenue budget.

An overpayment error of £147.80 was identified during the Audit and will be reclaimed from the recipient.

Staffing : None from this report

Equality and Diversity including Human Rights :

None from this report

Risk Assessment : None arising from this report

Climate Related Risks and Opportunities : None arising from this report

Title and Location of any Background Papers used in the preparation of this report:

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	x

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	x

1. Introduction

1.1 The summary letter provided in Appendix A summarises the report by our external auditors (Mazars) which was designed to meet the agreed requirements of the Council and the DWP as described in the DWP Housing Benefit Assurance Process (HBAP) reporting framework instruction 2018/19.

1.2 It is important to note that the procedures specified in DWP's HBAP Reporting framework instruction does not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the Council's claim for Housing Benefit subsidy on form MPF720A.

1.3 The headlines of the letter include:

- The Housing Benefits Subsidy Claim had a value of £20.230m
- The Grant HBAP record was signed off on 21 November 2019
- There were no significant issues identified
- An error was found in the assessment of one claim, due to incorrect information being supplied by the claimant. This resulted in an overpayment of £147.80. Officers conducted a full review of all Housing Association claimants with a monthly tenancy and no other errors were identified.
- The final claim was resubmitted to correct the error.
- The final audit cost was £6,100, core fee £5,800 with an additional half day of testing required at an additional £300.

MAZARS

Governance and Audit Committee Members
West Lindsey District Council
Guildhall
Marshall's Yard
Gainsborough
DN21 2NA

Direct line

Email Michael.norman@mazars.co.uk

21 November 2019

Dear Members

West Lindsey District Council - Housing Benefit subsidy claim for the year ended 31 March 2019 (Form MPF720A)

In lieu of the formal Grants and Returns Report, which is no longer a Public Sector Audit Appointments Limited or National Audit Office requirement I am writing to confirm the completion of 2018/19 grants assurance work we were engaged to carry out and to provide a short summary of our findings.

We were engaged by the Council to carry out the agreed upon procedures relating to the above claim required under the Department for Work and Pensions HBAP reporting framework instruction 2018/19. The total expenditure under the claim was £20.2m. We issued our report to the DWP and the Section 151 Officer on 21 November 2019, ahead of the 30 November 2019 deadline.

In our report we confirmed that the claim had been amended by £148 to correct errors identified during the work. No other exceptions needed to be brought to DWP's attention in our report and no recommendations for the council or control observations were raised.

The fee for the work was £6,100 plus VAT, which included £300 for additional work required as a result of matters identified during the engagement.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

Mike Norman

Senior Manager

Governance and Audit Committee	
Tuesday, 14 January 2020	

Subject: Draft Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy and Draft Capital Investment Strategy

Report by:	Executive Director of Resources
Contact Officer:	Tracey Bircumshaw Strategic Finance and Business Support Manager tracey.bircumshaw@west-lindsey.gov.uk Caroline Capon Corporate Finance Team Leader caroline.capon@west-lindsey.gov.uk
Purpose / Summary:	To seek approval for the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision Policy and Capital Investment Strategy to facilitate effective financial management and planning.

RECOMMENDATION(S):

1. **To review, comment and scrutinise the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy 2020/21 and recommend them to Full Council.**

2. **To review, comment and scrutinise the Capital Investment Strategy in conjunction with the Treasury Management Strategy.**

IMPLICATIONS

Legal:

The Local Government and Finance Act 2003 and the Treasury Management Code of Practice and Sectorial Guidance include a key principal that an organisations appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing.

Financial : FIN/150/20

There are no direct financial implications arising from this report.

Staffing :

None from this report.

Equality and Diversity including Human Rights :

None from this report

Risk Assessment :

Interest Rate Risk: A rise in interest rates may lead to capital investment loss due to the inverse price and yield relationship and vice versa.

Inflation Risk: Real returns can be eroded if inflation is expected to or rises during the term of the investment, therefore capital value may be reduced

Re-Investment Risk: the effect of changing interest rates on re-investment before maturity.

Credit Risk: The value of an investment can be affected by the credit quality/rating of the issuer.

Default Risk: Possibility that total principal may not be returned before maturity, or partially returned.

Net Cost of Services Risk: Under the IFRS9 amendments in 2018/19 there is a risk that adverse fair value valuations for some investments (such as the Property Fund) would have a direct negative impact on the Comprehensive Income and Expenditure Statement for Net Cost of Services.

This risk will be mitigated for 5 years by a statutory over-ride approved by Government.

Risks associated with investing for longer periods, and in instruments where the values can go down as well as up, will require mitigation as there will be increased risk to the security and liquidity of investments.

Mitigation of these risks will be undertaken by defining the restrictions of time and maximum value of investment made and with appropriate financial appraisals being undertaken for each investment. Close monitoring of the investment performance will also be undertaken. Risk to the Net cost of services due to IFRS9 will be mitigated through the maintenance of a reserve for Investments Volatility Reserve, this will prevent any adverse change in valuation have a direct impact on the Comprehensive Income and Expenditure Statement. Ongoing review and maintenance of this reserve will be required each year.

Climate Related Risks and Opportunities :

Title and Location of any Background Papers used in the preparation of this report:

Treasury Management Code of Practice and Cross-Sectorial Guidance Notes 2017

Prudential Code for Capital Finance in Local Authorities 2017

Treasury Management in Public Services: Guidance Notes 2018

All papers are located in the Financial Services section, Guildhall

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

Executive Summary

1. **Executive Summary**

1.1 The Council is required to approve a Treasury Management Strategy Statement for 2020/21 before 1 April 2020. In accordance with the constitution the Governance and Audit Committee are responsible for the scrutiny of the Council's Treasury Management Strategy and Policies. The Treasury Management Strategy is therefore attached for the approval of Council. In addition the Capital Investment Strategy, which has direct links to the Treasury Management Strategy is also provided for your scrutiny.

1.2 The main elements of the Treasury Management Strategy are;

1.2.1 The Borrowing Strategy (para 3.5)

The key objectives of the Council's Borrowing Strategy are;

- To ensure that future external debt is affordable and sustainable within the long term within the revenue budget constraints.
- To borrow to support commercial aspirations, where returns can meet the cost of borrowing.
- To support schemes with a socio-economic value i.e. for the regeneration and growth of the District.
- To support significant service investment where the cost of borrowing will be offset by efficiencies and/or cost savings
- To potentially borrow in advance of need so that external debt (fixed rate funding) is arranged whilst interest rates are lower than they are projected to be over the next few years; and
- all external debt undertaken will be repaid on loan maturities

1.2.2 The Investment Strategy (para 4.4)

The main objective of the strategy is the security, liquidity and finally yield of the investment, in the context of the Council's risk appetite and through the mitigation of risks.

1.2.3 The Minimum Revenue Provision Policy (MRP) (Appendix A)

The Council will repay an element of prudential borrowing annually in accordance with the MRP Policy as detailed below;

- Asset Life Method – debt repaid over the life of the asset
- Asset Life – Annuity Method – for regeneration schemes or admin projects where revenue benefits are only realised in future years or increase in future years, and will be based on an appropriate rate comparable with PWLB Rates

- Loan Principal repayment will be proxy for MRP for loans funded from borrowing
- Borrowing for Non Treasury Activity – MRP will be considered on a case by case basis as the intention is that the asset will be sold within the short/medium term and the capital receipt utilised to repay borrowing.

Note: To mitigate the risk of loss of the capital receipt not meeting outstanding debt, a Valuation Volatility Reserve has been created to fund any shortfall.

1.3 To provide transparency the Treasury Management Strategy includes at 4.7 the (Non-Treasury) Investment Strategy in the context of the Commercial Investment Strategy previously approved by Corporate Policy and Resources Committee.

1.4 The Treasury Management Strategy including the Borrowing Strategy, Investment Strategy and Minimum Revenue Provision Policy are detailed below.

1.5 The Capital Investment Strategy is attached at Appendix 1 for consideration. The Capital Investment Strategy forms a key part of the Council's overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's over-arching corporate priorities and objectives over a medium term (five year) planning horizon.

The Capital Investment Strategy provides a framework to enable both revenue and capital investment decisions which contribute to the achievement of the Council's priorities and objectives as set out in the Corporate Plan.

The strategy defines how the capital programme is to be formulated, and it identifies issues and options that influence revenue and capital spending, and sets out how the resources will be managed.

TREASURY MANGEMENT STRATEGY
Minimum Revenue Provision Policy and Annual Investment Strategy

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1. INTRODUCTION

1.1 Background

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

The second main function of the treasury management service is the funding of the Council's capital plans. A 5 year Capital Programme is therefore developed to provide a guide to the borrowing need of the Council after taking into account the availability of other sources of funding, i.e. external grant, earmarked reserves, capital receipts, revenue and capital resources. The management of longer-term cash may involve arranging long or short-term loans (external borrowing), or using longer-term cash flow surpluses in lieu of external borrowing (internal borrowing). On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The Council's Corporate Plan identifies the Corporate Objectives of the Council and which then informs capital investment requirements. The 2020/21 to 2024/25 Capital Programme therefore includes significant capital investment which will require resourcing, from revenue, earmarked reserves, capital receipts, grant income, and borrowing.

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

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

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as;

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

The treasury management activity involves substantial sums of money, which it borrows and invests. This exposes the Council to potential large financial risk, which can include the loss of invested funds, or the revenue consequence of changes in interest rates. Therefore the successful identification, control and monitoring of risk are integral to this function and include credit and counterparty risk, liquidity risk, market or interest rate risk, refinancing risk and legal and regulatory risk.

1.2 Reporting requirements

1.2.1 Capital Investment Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all Local Authorities to prepare a capital strategy report, which will provide the following:

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

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

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

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

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

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

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

1.2.2 Treasury Management reporting

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.

Prudential and treasury indicators and treasury strategy (this report) - The first and most important report is forward looking and covers:

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

A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the Corporate Policy and Resources Committee will receive quarterly update reports.

An annual treasury report – This is a backward looking review documents and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the Minimum Revenue Provision (MRP) policy.

Treasury management issues

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

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. This is mandatory training for the Governance and Audit Committee and is delivered annually. This training was undertaken on 14 January 2020. Further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

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

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council currently uses Cushman and Wakefield in relation to this activity.

2. THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

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

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans which are included in the approved Capital Programme and which are the key drivers to treasury management activity. The output of the programme is reflected in the Council's prudential indicators, which are designed to provide Members with an overview and Members are asked to approve the capital expenditure forecasts:

Capital Expenditure By Cluster £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Our People	1.258	1.870	1.301	0.694	0.595
Our Place	6.132	13.438	14.991	7.890	1.181
Our Council	0.195	0.332	0.826	0.300	0.485
Investment	13.494	7.015	7.000	0.000	0.000
Total	**21.079**	**22.655**	**24.118**	**8.883**	**2.261**

Capital expenditure can be financed from a range of external and internal sources. External sources include private sector contributions ie S106 developer agreements, as well as government grants. Internal sources include capital receipts, earmarked reserves, and revenue contributions.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a financing need ie borrowing.

Financing of capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital receipts	0.000	0.435	2.152	0.000	0.000
External Grants	1.578	1.322	5.728	4.622	0.928
S106	0	0.360	0.500	0.000	0.000
Earmarked Reserves	1.053	2.954	5.538	2.161	1.133
Revenue Resources	0	0.185	0	0.200	0.200
Net financing need for the year	**18.448**	**17.399**	**10.200**	**1.900**	**0.00**

Other long-term liabilities. The above financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments**.**

The forecast of Revenue and Capital Reserves after taking into account contributions to and from these reserves for both capital and revenue purposes are detailed in the table below;

Year End Resources £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund Balance	3.850	3.340	4.276	4.069	3.862
Earmarked Reserves	15.834	13.858	8.773	7.070	6.342
Total Revenue Reserves	**19.684**	**17.198**	**13.049**	**11.139**	**10.204**
Capital receipts	3.360	2.823	2.139	2.205	2.271
Capital Grants Unapplied	0.587	0.000	0.000	0.000	0.000
Total Capital Reserves	**3.947**	**2.823**	**2.139**	**2.205**	**2.271**
Total Useable Reserves	**23.631**	**20.021**	**15.188**	**13.344**	**12.475**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council is asked to approve the CFR projections below:

£m	**2018/19 Actual**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Capital Financing Requirement					
Accounting Adj	1.065	1.065	1.065	1.065	1.065
Finance Leases	0.000	0.000	0.000	0.000	0.000
Prudential Borrowing	22.016	39.305	49.242	50.592	49.220
Total CFR	**23.081**	**40.370**	**50.307**	**51.657**	**50.285**
Of which: Commercial Investment Property	**15.921**	**22.999**	**30.000**	**30.000**	**30.000**
Movement in CFR	**18.367**	**17.289**	**9.937**	**1.350**	**-1.372**

Movement in CFR represented by					
Net financing need for the year (above)	18.403	17.399	10.200	1.900	0.000
Less MRP and other financing movements	-0.036	-0.110	-0.263	-0.550	-1.372
Movement in CFR	**18.367**	**17.289**	**9.937**	**1.350**	**-1.372**

Note:

1. *In 2018/19 the MRP includes finance lease annual principal payments*

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
CFR	23.082	40.371	50.307	51.657	50.285
Less Leases	0.000	0.000	0.000	0.000	0.000
Borrowing CFR	**23.082**	**40.371**	**50.307**	**51.657**	**50.285**
Less PWLB Borrowing	11.000	28.189	38.189	44.089	44.089
Over(-)/Under Borrowing	**12.082**	**12.182**	**12.118**	**7.568**	**6.196**
General Fund Balance	-3.850	-3.340	-4.276	-4.069	-3.862
Earmarked Reserves	-15.834	-13.858	-8.773	-7.070	-6.342
Capital receipts	-3.360	-2.823	-2.139	-2.205	-2.271
Capital Grants Unapplied	-0.587	0.000	0.000	0.000	0.000
Provisions	-1.000	-1.000	-1.000	-1.000	-1.000
Working capital*	1.235	1.235	1.235	1.235	1.235
Expected investments (-) /Borrowing	**-11.314**	**-7.604**	**-2.835**	**-5.541**	**-6.044**

*Working capital balances shown are estimated year-end; these may be higher mid-year

3.2 Current portfolio position

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), and internal borrowing as a percentage of the CFR.

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt at 1 April	0	11.000	28.189	38.189	44.089
Expected change in Debt	11.000	17.189	10.000	5.900	0.000
Other long-term liabilities (OLTL)	0.027	0.000	0.000	0.000	0.000
Expected change in OLTL	-0.027	0.000	0.000	0.000	0.000
Gross external debt at 31 March	**11.000**	**28.189**	**38.189**	**44.089**	**44.089**
Internal Borrowing (at 31 March)	11.058	11.268	11.468	7.468	7.468
The Capital Financing Requirement	**23.081**	**40.370**	**50.307**	**51.657**	**50.285**
Internal Borrowing %	**47.91**	**27.91**	**22.80**	**14.46**	**14.85**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

3.3 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to be exceeded. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
External Debt	40.588	44.089	44.089	44.089
Operational Boundary	**40.588**	**44.089**	**44.089**	**44.089**

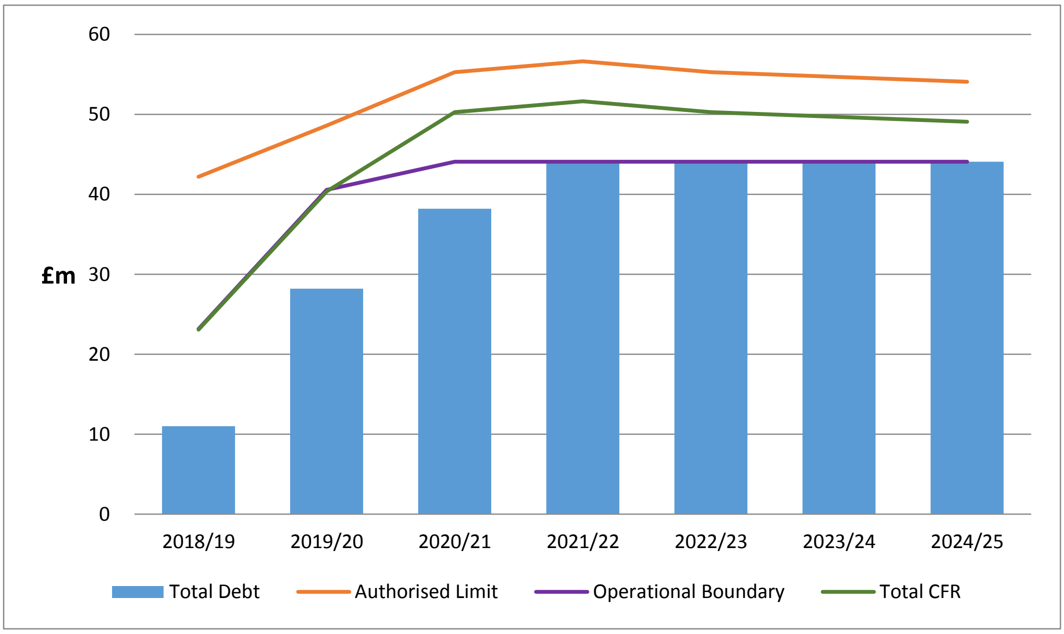
The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Gross Debt*	48.589	55.307	56.657	55.285
Authorised Limit	**48.589**	**55.307**	**56.657**	**55.285**

**Gross debt estimates allow for external borrowing in advance of need for up to a maximum of two years and includes additional headroom of £5m for unexpected cashflow movements.*

The graph below shows our projections of CFR and borrowing;



3.4 Prospects for interest rates

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

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

(A more detailed interest rate forecast and economic commentary are set out in appendices B and C)

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and more recently, due to the impending general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then it is likely the MPC would cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management.

- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.5 Borrowing strategy

The Borrowing Strategy covers the relevant prudential and treasury indicators, and the current and projected debt positions as detailed above.

The key objectives of the Council's Borrowing Strategy are;

- To ensure that future external debt is affordable and sustainable within the long term within the revenue budget constraints.
- to borrow to support commercial aspirations, where returns can meet the cost of borrowing.
- to support schemes with a socio-economic value ie for the regeneration and growth of the District.
- to support significant service investment where the cost of borrowing will be offset by efficiencies and/or cost savings
- to potentially borrow in advance of need so that external debt (fixed rate funding) is arranged whilst interest rates are lower than they are projected to be over the next few years; and
- all external debt undertaken will be repaid on loan maturities

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Executive Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.6 Policy on borrowing in advance of need

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

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

3.7 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

If rescheduling was done, it will be reported to the Council, at the earliest meeting following its action.

3.8 New financial institutions as a source of borrowing

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)

- Municipal Bonds Agency (no issuance at present but there is potential)

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

3.9 Approved sources of Long and Short Term Borrowing

The table below details approved sources of Long and Short term borrowing and the percentage limit (if applicable) of the Council's total borrowing that can be utilised for each source.

On Balance Sheet	Fixed	Variable
PWLB	Unlimited	25%
Municipal bond agency	Unlimited	0
Local authorities	Unlimited	0
Banks	25%	10%
Market (long-term)	25%	10%
Market (temporary)	25%	10%
Local authorities temporary	25%	N/A
Local Bonds	25%	10%
Overdraft (notified in advance)		£1m
Internal (capital receipts & revenue balances)	50%	N/A
Finance leases	Unlimited	N/A

4.0 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

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

The Council's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") 2017.
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, liquidity second, then yield (return).

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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

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

Investment instruments identified for use in the financial year are listed in Appendix D under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

As a result of the change in accounting standards for 2019/20 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

4.2 Creditworthiness policy

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

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

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

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

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

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

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing the investment counterparties with adequate security and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may be prudently committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

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

Credit rating information is supplied by Link Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

The criteria for providing a pool of high quality investment counterparties (both specified and non specified investments) is:

- Banks 1 – good credit quality – the Council will only use banks which:
  i. Are UK banks; and/or
  ii. Are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA

  And have, as a minimum the following Fitch, Moody's and Standard & Poors credit ratings (where rated):

  i. Short Term – F1
  ii. Long Term – A

- Banks 2 – Part nationalised UK bank, can be used provided the bank continues to be part nationalised or it meets the ratings in Banks 1 above.

- Banks 3 – The Council’s own banker for transactional purposes if the bank falls below the above criteria, although in this case the balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation – The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building Societies – The Council will use all societies which:

i. Meet the ratings for banks outlined above;

- Money Market Funds (MMFs) – AAA
- Enhanced Money Market Funds (EMMFs) – AAA
- UK Government (including gilts, treasury bonds and the DMADF)
- Local Authorities, parish councils etc
- Supernational institutions
- Local Authority Property Asset Fund (CCLA)
- Corporate Bond Funds
- Covered Bonds

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council’s counterparty list are as follows (these will cover both specified and non-specified investments). It should be noted that in the case of Lloyds Bank, our current bankers, that as well as allowing £5m fixed term investment in that one institution that there is flexibility to hold, in current account balances at Lloyds Bank, up to £1m ‘cash’ on any one day:

	Fitch	Moody’s	Standard & Poors	Money Limit	Time Limit
Banks 1 – up to 1 year	**F1**	**P1**	**A1**	**£5m per counterparty at Group level**	**1 year**
Banks 1 – over 1 year	**AA**	**Aa2**	**AA**	**£2m maximum exposure**	**1 year to 5 years**
Banks 2 – UK part nationalised				**£5m per counterparty at Group Level**	**1 year**
Banks 3 – Council’s own				**£1m**	**1 Day**

bank if not covered by 1 or 2					
Other Local Authorities				**£5m per counterparty**	**5 years**
Housing Associations				**£1m maximum exposure**	**6 mths**
Bank of England DMADF				**No limit**	**6 mths**
Gilts/Treasury Bills – where no loss of principal if held to maturity				**£5m maximum exposure**	**5 years**
Supranational				**£5m per counterparty**	**1 year**
Quality Corporate Bonds Funds				**£2m**	**5 years**
Local Authority Property Asset Funds				**£4m**	**5 years**
Certificates of Deposit				**£2m**	**5 years**
Covered Bonds				**£1m**	**5 years**
	Fund rating			**Money and/or % Limit**	**Time Limit**
Money market funds	**AAA**			**£5m per counterparty**	**Overnight**
Enhanced money market funds	**AAA**			**£5m**	**5 years**

UK banks – ring fencing

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

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

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

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition

- No more than £2m will be placed with any non-UK country at any time;
- Limits in place above will apply to a group of companies;
- Sector limits will be monitored regularly for appropriateness

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Longer term investment will be undertaken where it is anticipated that levels of reserves and cashflows are adequate over the medium term.

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

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

Investment returns expectations.

On the assumption that the UK and EU agree a Brexit deal by the end of 2019 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

The Council is expecting to have an average investment portfolio of £13.312m throughout 2020/21 and expects to receive investment income totalling £0.251m as shown below:

Treasury Investment Portfolio	Average Portfolio £m	Interest Rate %	Interest £m
Liquidity Investments	9.790	0.89	0.087
Other Investments	1.022	3.82	0.039
Long Term Investments	2.500	4.99	0.125
Total Investment Income (2020/2021)			**0.251**

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the

Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested > 364 & 365 days			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested > 365 days	£6m	£6m	£6m

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will 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, with supporting reasons in the mid-year or Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.06% historic risk of default when compared to the whole portfolio**.**

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

- Liquid short term deposits of at least £4m available with a week's notice.
- Weighted average life benchmark is expected to be 0.25 years, with a maximum of 1 years.

Yield - local measures of yield benchmarks are;

- Investments – internal returns above the 7 day LIBID rate

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	**0.07%**	**0.19%**	**0.36%**	**0.55%**	**0.77%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 Non-Treasury Investments (Commercial Property)

As part of the Capital Programme 2016/17 – 2020-21 approved in March 2016 the Council planned to invest £20m to create a Commercial Property portfolio, to generate a revenue return to support the future sustainability of the Council and therefore protecting the services of the Council. The net return was estimated to be £600k p.a based on the approved £20m investment limit. The first acquisition was made in October 2017. The Council's portfolio currently consists of 6 properties, with £21.666m having been spent on these acquisitions (includes costs) up to the end of October 2019.

The Commercial Property Strategy included the following principles;

The objective is for WLDC to increase the size of this portfolio by making a further investment of £8m in commercial property over the next 3 years to generate a target net income of £500,000 - £600,000 per annum. In May 2018 the Corporate Policy and Resources Committee agreed to increase the total investment figure to £30m. This was on the basis that the individual target lot size should be increase to a maximum of £10m to take advantage of a segment of the market which was less competitive. The increase in total spend was required to maintain a risk managed portfolio at the higher value lot size.

Strategy

Working with the commercial property consultant, Cushman & Wakefield, officers have developed an investment strategy for the Council that aims to balance risk across the portfolio whilst achieving the target returns required.

The strategy will include;

1. To acquire an investment portfolio of commercial property assets in lot sizes of £1.0m to £10.0m, targeting an average lot size of circa £3.5m to £4m across the portfolio and total investment of £30.0m.

2. Authority to complete on acquisitions should be delegated to the Executive Director of Resources in consultation with the Leader of the Council, provided that the purchase is within agreed criteria. All assets will be assessed against these criteria and the Executive Director of Resources will have delegated Authority to complete on the acquisition of assets which score 50 or more out of 70. Any asset which falls below this threshold or registers a zero against any criteria may still be

considered but specific justification will need to be provided and the decision to proceed taken to the Corporate Policy and Resources Committee for approval. An example of how this scoring criteria will be applied is provided at Appendix D of the attached report.

3. A combination of reserves and borrowing will be used to fund acquisitions. Business case modelling will be developed using an opportunity cost of capital based on debt funded through Prudential Borrowing. The business case will be made on the basis of borrowing the full amount each time to ensure that resources are able to be recycled.

4. All assets will be acquired against a target hold period of 5 to 10 years with consideration given to asset management to enhance/protect value over the period of ownership (and any additional resource required/expected in this respect) and risks relating to disposal after the proposed hold period. A proportion of the income will be allocated for risk provision. Further returns would depend on investment performance relative to target and might be achieved through release of the risk provision and/or capital returns.

5. The financial position will be thoroughly monitored throughout the hold period and adequate response made to any change in market conditions and portfolio performance. Decisions regarding the funding of acquisitions will be made by the Executive Director of Resources/ s.151 officer and will be based on:
   - An analysis of disposal value risk after an assumed hold period
   - The expectation that the asset will generate a capital return that tracks inflation or better with a provision for risk should this not be achieved

6. Access to suitably qualified/experienced resource is essential for successful delivery and management of the risks involved. Resources should be identified and ring-fenced to the activity. The property and asset team has been restructured to ensure that sufficient resources available to manage the existing assets and the new additions that would be acquired in line with this strategy.

4.8 Capital Investment Strategy

The Capital Investment Strategy forms a key part of the Council's overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's over-arching corporate priorities and objectives over a medium term (five year) planning horizon. The Strategy has direct links to the Treasury Management Strategy and it is therefore appropriate that the Governance and Audit Committee scrutinise and provide assurance to Council on both policies. **The Capital Investment Strategy is attached at Appendix H.**

5 APPENDICES to the Treasury Management Strategy

A Prudential and treasury indicators and MRP statement

B Interest rate forecasts

C Economic background

D Treasury management practice 1 – credit and counterparty risk management

E Approved countries for investments

F Treasury management scheme of delegation

G The treasury management role of the section 151 officer

H The Capital Investment Strategy

APPENDIX A

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2022/23 AND MRP STATEMENT

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

Capital Expenditure

Capital Expenditure By Cluster £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Our People	1.258	1.850	1.301	0.694	0.595
Our Place	6.132	13.438	14.991	7.890	1.181
Our Council	0.195	0.332	0.826	0.300	0.485
Investment	13.494	7.015	7.000	0.000	0.000
Total	**21.079**	**22.655**	**24.118**	**8.883**	**2.261**

Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend funded from borrowing (the CFR) each year through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement;

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset life method** – MRP will be charged, and therefore debt repaid over the expected useful life of the asset financed from borrowing based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

- **Asset life method – Annuity Method**
  Under this approach the debt is repaid over the expected useful life of the asset financed from borrowing. For, regeneration schemes or administrative projects, where revenue benefits are only realised in future years or increase in future years, and will be based on an appropriate rate.

- **Loan Principal repayment as proxy for MRP**
  The council considers that where borrowing has funded loan advances, the loan principal repaid (or in the event of default the realisation of security) as a capital receipt will be utilised to repay the borrowing and therefore negates the requirement to set aside an annual MRP charge.

- **Borrowing for Non-Treasury Investments**
  Where the Council borrows and anticipates a capital receipt will be realised within the short/medium term, ie for the acquisition of Commercial Investment Properties funded from borrowing, where the asset is to be held for a set period, and a capital receipt is expected to be realised at the end of this period, then the requirement to set aside a MRP to repay the debt will be considered on a case by case basis and in such cases, and with the agreement of the Auditor, MRP may not be applied subject to taking into account any risks, project profiles and revenue income streams from the investment.

  This is considered a prudent charge as the assets will be held for medium term period and the debt will be repaid upon sale of the asset.

  To mitigate the risk of loss of capital upon sale of any Commercial Investment Property, should the capital receipt not meeting outstanding debt, a Valuation Volatility Reserve has been created to fund any shortfall.

- **Finance Leases**
  Repayment of principal included in finance lease repayments are applied as MRP**.**

Voluntary MRP Overpayments – The Council has the ability to repay additional amounts for MRP as voluntary contributions as it considers appropriate.

These options provide for a reduction in the borrowing need over approximately the asset's life.

Affordability prudential indicators

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

a. Ratio of financing costs to net revenue stream

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

%	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Net Revenue Expenditure £m	**14.158**	**12.941**	**13.690**	**13.924**
Interest Payable £m	0.391	1.263	1.296	1.326
Interest Receivable (-) £m	-0.234	-0.250	-0.125	-0.087
MRP £m	0.110	0.264	0.550	1.372
Capital Financing Charges	**0.267**	**1.277**	**1.721**	**2.611**
% Ratio	**1.89%**	**9.87%**	**12.57%**	**18.75%**

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

Interest receivable excludes interest from loans.

b. Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

£	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Council tax - band D	-6.33	1.25	6.28	7.21	6.43	6.61

Treasury indicators for debt

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

£m	**2020/21**	**2021/22**	**2022/23**
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • **Debt only** • **Investments only**	 100% 75%	 100% 75%	 100% 75%
Limits on variable interest rates • **Debt only** • **Investments only**	 25% 100%	 25% 100%	 20% 100%
Maturity structure of fixed interest rate borrowing 2020/21			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years to 20 years		0%	100%
20 years to 30 years		0%	100%
30 years to 40 years		0%	100%
40 years to 50 years		0%	50%
Maturity structure of variable interest rate borrowing 2020/21			
		Lower	Upper
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	0%
5 years to 10 years		0%	0%
10 years to 20 years		0%	0%
20 years to 30 years		0%	0%
30 years to 40 years		0%	0%
40 years to 50 years		0%	0%

APPENDIX B

Interest Rate Forecasts 2019-2022

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

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. *(See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.)* There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

APPENDIX C

ECONOMIC BACKGROUND (as at December 2019)

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.
However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.4 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.

- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

APPENDIX D TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the code on 01/03/2010 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1 (1) covering investment counterparty policy requires approval each year.

Annual investment strategy – The key requirement of both the Code and investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that 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 investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1) The UK Government (such as Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2) Supranational bonds of less than one year's duration
3) A local authority, housing association, parish council or community council

4) Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard & Poors, Moody's and/or Fitch rating agencies

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are set out in the main report.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investment would include any sterling investments with:

	Non Specified Investment Category	Limit £
A	**Gilt Edged Securities** with a maturity of greater than one year. These are Government Bonds and so provide the highest security of investment and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£5m
B	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible	£1m
C	**Any Bank or Building Society** that has a minimum long term credit rating of AA, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£2m
D	Enhanced Money Market Funds AA rated	£2m
E	Corporate Bond Funds	£2m
F	Local Authority Property Asset Fund	£4m
G	Certificates of Deposit	£2m
H	Covered Bonds	£1m
I	Property Funds – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using	£4m

This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties – The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

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

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

APPENDIX E

APPROVED COUNTRIES FOR INVESTMENTS (As at 23.12.2019)

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

APPENDIX F

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual Treasury Management Strategy and Mid Year Review Treasury Management Indicators.

(ii) Corporate Policy and Resources Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.
- Mid Year Review of Treasury Management Indicators

(iii) Governance and Audit Committee

- review and scrutiny of the Treasury Management Strategy, policy and procedures and making recommendations to the full Council.

APPENDIX G

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

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

- *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

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

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

APPENDIX H

CAPITAL INVESTMENT STRATEGY 2020/21 – 2024/25

1. Introduction

The Council is required to approve a Capital Investment Strategy in accordance with the Prudential Code for Capital Finance In Local Authorities.

The Capital Investment Strategy provides a high level overview of how capital investment, capital financing and treasury management activity supports the provisions of services. It considers associated risks and how they are managed and ensures that future financial implications are identified to inform future years budgets and financial sustainability.
The Strategy forms part of the Council's overall Corporate Planning Framework. It provides a mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's corporate priorities and objectives over a medium term (five year) planning horizon and ensures that the revenue implications of investments are both affordable and sustainable.
The strategy provides a framework for determining the relative importance of individual capital projects. It defines how the capital programme is to be formulated, and it identifies issues and options that influence revenue and capital spending, and sets out how the resources will be managed.

Key elements of the strategy;

- Ensures investments meet our Corporate Plan objectives
- Incorporates the requirements of the Asset Management Plan
- Enables the development of an Capital Investment Programme over the medium term (5 years)
- A framework which will identify priorities for the use of resources for investment.
- Decisions are based on sound business cases.
- Risks are identified and mitigated where possible
- Directly links to the Treasury Management Strategy ensuring an affordable and sustainable Capital Investment Programme in adherence to legislation and the Prudential Code.
- Informs the Medium Term Financial Plan by identifying the revenue impacts of investment decisions.
- Incorporates an annual review to ensure the programme still meets our priorities.
- Considers innovative solutions to funding.

2. Principles Supporting the Capital Investment Strategy

a) Strategy Principles

- The investment programme will support the Council's strategic priorities, therefore, the capital investment programme will link to all key strategic planning documents: specifically the Corporate Plan, Executive Business Plan, Medium Term Financial Plan and the Asset Management Plan.

- Schemes within the programme will be prioritised on an authority wide basis and the process of assessing investments, against specific criteria, will optimise the benefit and relative importance of potential schemes.

- **Responsible Investing (RI)** - investing in opportunities that seek to generate both financial value and sustainable growth*,*

- **Socially responsible investing** (**SRI**), also known as sustainable, socially conscious, "green" or ethical investing, as well as any investment strategy which seeks to consider both financial return and social good.

b) Capital Investment Policy

The Capital Investment Strategy will be underpinned by a Land and Property Investment Policy. The policy ***does not describe detailed operational investment activity but does describe the framework, and principal [underlying] considerations, which the Council will follow when reviewing and subsequently agreeing investment opportunities.*** It is designed to support the goals and objectives as outlined in the Corporate Plan, the general objectives of a UK public sector service provider and the very specific aims; goals and aspirations of the Council members; executive officers and their teams.

c) Finance Principles

- The overarching principal is the commitment to achieve affordable capital investments over the longer term.

- To pursue all available external funding options and opportunities for leverage of external resources.

- Ensure evaluation for value for money investments by whole life costing (where applicable) and by having robust Business Cases with full financial modelling, and appropriate due diligence in estimates in order to inform the full financial implications

- To develop partnerships, including the pursuit of shared services, joint ventures and community arrangements, where appropriate, to achieve the Council's investment aspirations and value for money.

- Monitoring and evaluation of approved budgets will form part of the quarterly budget monitoring reports.

- Monitoring and evaluation of approved Programmes and projects will form part of Performance Management.

- Encourage community engagement by informing on priorities and consultation on proposals.

- To invest in non-treasury activities to support ongoing sustainability in the delivery of services.

- Regularly review Business Cases as schemes are developed and update financial models to inform future budget impacts.

d) Asset Management Principles

The Asset Management Policy ensures that;

- We will take all reasonable and practical steps to ensure the health, safety and wellbeing of staff, visitors and contractors who use or visit our buildings, land or property and who use or are in contact with supporting asset infrastructure.

- We will ensure that all our buildings and land and property assets are fully compliant with current legal requirements, are fit for purpose and managed and maintained in accordance with best practice.

- We will ensure that infrastructure supporting our physical assets is safe and fully compliant with relevant legislative and regulatory requirements.

- All activity on our assets will be carried out in compliance with relevant legislative and statutory requirements.

- We will assess asset related risks and manage such risk in accordance with our corporate risk management policy or in accordance with procedures relevant to the specific asset, its use and function.

- We will retain and/or acquire physical assets which are appropriate to our business and function and dispose of those assets which are not fit for purpose or which cannot support our business or investment criteria.

- We shall continue to actively develop our asset management systems; processes and procedures in a way which is appropriate; efficient; transparent and sustainable and which supports the best management outcomes for our physical assets.

- We shall continue to train and develop staff across the asset management discipline and apply technology and innovation where practical.

- We shall seek continual improvement of our management capability and activities to ensure value for money for all stakeholders.

3. Capital Investment Priorities

The Council's proposed Capital Investment Programme 2019/20 will support the Corporate Plan's key themes;

Our People – Health and Wellbeing, Leisure, Skills, Vulnerable Groups and Communities

- Our Place – Economic Growth, External Investment, Social Regeneration, Infrastructure, Enhanced Environment
- Our Council – Finances, Structures, Parternships, Policies, Governance

The Council's financial planning process ensures that the decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The key corporate documents and relevant linkages with this strategy include;

The Corporate Plan – priorities for the medium term
The Medium Term Financial Plan - incorporates the Financial Strategy, revenue budget financial impacts of capital investment decisions.
The Reserves Strategy- prioritises the use of reserves for capital and revenue purposes.
The Treasury Management Strategy (including Investment Strategy) informs the affordability and sustainability of prudent investment decisions.
The Commercial Portfolio Strategy – informs how acquisitions of investment properties will be made on a risk based approach
The Value for Money Strategy – Ensuring VFM is achieved from investment decisions.
The Housing Strategy – Supporting housing growth and regeneration within the district.
The Land and Property Investment Strategy -
The Asset Management Policy – Investment needs of our own land and property holdings
Service Plans – Investment need for delivery of quality services

4. The Capital Investment Strategy Process

The strategic approach to revenue and capital investment decisions needs to be formalised to ensure that our resources are directed to the most appropriate schemes which both deliver our corporate priorities and which are based on sound business cases. Assessment and prioritisation of capital investments schemes are based on uniform criteria.

Therefore the Capital Investment Strategy Process has been developed which will ensure that prioritisation of investments are directed to deliver Corporate Objectives and delivery of the Executive Business Plan and Service Business Plans in addition to generating returns to support delivery of core services.

The process for includes:

- Review existing Capital Programme, timing, budget requirements etc.
- Annual review of existing Projects
- Asset Management Plan – detailed costs of required investment in property portfolio and property assets to be disposed.
- Review of asset replacement programmes
- Consideration of financing availability i.e. Earmarked Reserves, Grant funding, Capital Receipts and Prudential Borrowing
- Business Planning – identifying new schemes and projects for evaluation both capital and revenue.
- Evaluation of all proposed schemes against scoring matrix.
- Consider core service funding requirements and opportunities to invest in non-Treasury assets to generate returns

The final approved Capital Investment Programme and its financial implications, are included within the Medium Term Financial Plan, submitted to the Council annually in March for approval.

Fully costed and appraised business cases for each scheme will be presented to a relevant Board for consideration prior to any decision being made.

The Capital Programme consists of 4 levels of activity;

Pre-Stage 1 – Business Case in preparation
Stage 1 – Budget approved – requires full business case
Stage 2 – Business case approved in principal or awaiting funding
Stage 3 and Business as Usual (BAU) – Approved to spend and funding secured

The investment and the ongoing revenue implications of each scheme are ascertained from the financial implications and appraisals within the business case.

The Capital Investment Value is assessed against the capital definition, and deminimis limits (£10k).

Revenue Implications – include the impact on revenue budgets for running costs/additional staffing etc. and the impact of the cost of borrowing or loss of investment interest if capital receipts and revenue reserves are to be utilised

5. <u>Governance of the Capital Investment Programme</u>

In accordance with the Constitution and governance arrangements, the Council reviews its capital requirements and determines its Capital Programme within the framework of the MTFP and as part of the annual budget process. Resource constraints mean the Council continually needs to prioritise expenditure in light of its aims and priorities and considers alternative solutions.

To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with service and revenue budget planning process within the frame work of the MTFP.

New programmes of expenditure will be appraised following a clearly defined Business Case gateway process.

The Council will approve in principal the Capital Investment Programme, and will approve the release of funding for replacement and renewal programmes, this is undertaken annually in March as part of budget setting and the approval of the Medium Term Financial Plan.

The Governance and Audit Committee will provide assurance on this Capital Investment Strategy.

Corporate Policy and Resources Committee will be responsible for approving release of funding for the Capital Investment Programme and will therefore receive reports for each scheme detailing the business case, cost, proposed funding and revenue implications.

Corporate Policy and Resources Committee will receive quarterly monitoring an update reports which may include details of;

- new capital investment schemes
- slippage in programme delivery
- programmes removed or reduced
- virements between schemes
- revisions in spend profile
- overspending
- capital acquisitions and disposals
- loan advances and outstanding loan balances

Progress on specific programmes will also be monitored in relation to projects through the Performance Monitoring reporting framework.

The Programme Board will receive monthly highlight reports

The Management Team will receive quarterly monitoring reports and any exception reporting.

Budget Managers will receive monthly monitoring reports.

6. <u>Capital Financing</u>

The funding of Capital schemes can come from a number of resources, the use of external resources will take precedent ;

- Prudential borrowing
- Revenue contributions and Earmarked Reserves
- Capital Receipts
- External grants and contributions (including S106 and Community Infrastructure Levies (CiL))
- Leasing
- Other sources – i.e. partnerships or private sector involvement

This strategy, the outcomes of which will inform the MTFP, is intended to consider all potential funding options available to the Council and to maximise the financial resources available for investment in corporate priorities and service provision and improvement.

To deliver our strategic objectives, especially in relation to economic and housing growth, regeneration, in addition to investment in commercial property which is designed to provide a revenue return, significant levels of investment will be required, which will result in a borrowing need.

Prudential Borrowing

The Council has discretion to undertake Prudential borrowing to fund capital projects with the full cost of that borrowing (interest and minimum revenue provision) being funded from Council revenue resources and/or capital receipts. This discretion is subject to complying with the Code's regulatory framework which essentially requires any such borrowing to be prudent, affordable and sustainable. Prudential borrowing provides an option for funding additional capital development however it has to be funded each year from within the revenue budget and by generating additional ongoing income streams from the investment.

Given the pressure on the Council's revenue budget in future years, prudent use will be made of this discretion in cases and only where there is a clear financial benefit, such as "invest to save", "invest to earn". Consideration will only be given to commercial investments where returns are expected to be higher than the revenue costs of the debt, provision of loans where principal repayments will be utilised as proxy for MRP, borrowing or major regeneration schemes which do not increase revenue expenditure levels in the longer term but provide a beneficial economic and or social impact.

The Council will remain cautious and prudent in the extent of prudential borrowing undertaken to fund new capital investment.

Where prudential borrowing is utilised to fund Capital Investment, financial implication considerations will be provided including the risks and opportunities of the investment over both the payback period and over the repayment period of any debt taken out.

Revenue Contributions and Earmarked Reserves

Our continued prudent approach is to set aside revenue resources to fund capital replacement programmes and asset management funding.

New Homes Bonus Grant will continue to be set aside for the purpose of investment in growth and regeneration (economic and housing) and this strategy has been included in the MTFP.

We will consider future Earmarking of Reserves for service investment needs, invest to save and invest to earn projects and enhancements to our own property assets, in addition to consideration of revenue contingencies, volatility and budget smoothing.

Our own resources will therefore be utilised to fund those schemes which provide a SRI, invest to save schemes which achieve efficiencies, and investment in our operational service asset needs.

Capital Receipts

Capital receipts generated from the following sources and where appropriate utilised as detailed.

- Loans principal repayments – used to repay prudential borrowing
- Receipts from Asset Disposal (operational property assets or surplus land)
- Commercial Portfolio Properties – repayment of borrowing
- Share of RTB Housing Transfer Agreement – future investment
- Insurance settlements – replacement of asset

External Grants and contributions (incl S106 and Community Infrastructure Levy (CiL))

The Council will actively pursue grants and contributions and other innovative solutions to funding of capital investment schemes. This funding will be utilised in the first instance.

Leasing

The use of leasing will be undertaken where alternative funding is not available for vehicles or minor equipment and the revenue budget does not allow for a full capital repayment. Where there is a robust business case then the option of leasing may be considered.

Other Sources of Funding

There are a range of other potential funding sources which may be generated locally either by the Council itself or in partnership with others ie a growing number of private organisations are showing interest where clear joint benefits exist. Each case will be subject to specific financial appraisals and appropriate governance arrangements.

7. Investment in Commercial Properties (Non Treasury Investments)

Any acquisition of Commercial Properties will be in accordance with the Commercial Portfolio Strategy and are being acquired to support delivery of services in a financially sustainable organisation. Up to £30m has been approved for investment in Commercial Property in support and protection of Council Services.

Appropriate experts are engaged as required.

All assets will be assessed against a set criteria and the Executive Director of Resources and Chair of Corporate Policy and Resources will have delegated Authority to complete on the acquisition of assets which score 50 or more out of 70. Any asset which falls below this threshold or registers a zero against any criteria may still be considered but specific justification will need to be provided and the decision to proceed taken to the Corporate Policy and Resources Committee for approval.

An annual review will be undertaken of the Commercial Property Portfolio to ascertain whether its fair value is sufficient to provide security against loss against the capital investment, and therefore adequate to meet the cost of outstanding borrowing.

Under the Minimum Revenue Provision (MRP) Policy, there will be no annual MRP charge for borrowing undertaken to finance Commercial Properties. However voluntary MRP will be considered if appropriate.

A Valuation Volatility Earmarked Reserve has been created with a target balance of 5% of purchase price of the portfolio. This will help mitigate any financial loss of investment upon the sale of an asset should there be any shortfall against outstanding debt. A proportion of the annual revenue income generated from the investment will be allocated for risk provision.

A Commercial Contingency revenue base budget is also included within the MTFP to mitigate the risk of not achieving the desired level of yield from the Portfolio in year.

These investment assets are not deemed to be liquid over the short term but are likely to be held for the medium term of 5-10 years.

A number of prudential indicators in relation to these investments are contained within the Treasury Management Strategy and will be monitored throughout the year.

8. Risk

All capital projects have a risk register, with all risks affecting the project considered.
A specific risk of capital investment is the impact on the Council's VAT partial exemption (recovery of exempt VAT upto 5% of overall VAT). If exempt VAT exceeds 5% the whole amount is then irrecoverable. Each scheme is therefore assessed for its impact

9. Conclusion

The Capital Investment Strategy is a working document, which enables the Council to make informed rational capital investment decisions to achieve its corporate priorities and objectives. It provides a framework for determining the relative importance of individual projects.

The strategy will be reviewed annually to ensure that it remains relevant and effective.

Governance and Audit Committee
Tuesday, 14 January 2020

Subject: External Audit Strategy Memorandum (Plan) for 2019/20

Report by:	Executive Director of Resources
Contact Officer:	Caroline Capon Corporate Finance Team Leader caroline.capon@west-lindsey.gov.uk
Purpose / Summary:	To present the 2019/20 External Audit Strategy from our External Auditors, Mazars.

RECOMMENDATION(S):

To Approve the External Audit Strategy Memorandum Plan for 2019/20

IMPLICATIONS

Legal: None from this report

Financial : FIN/113/20/TJB Audit Fees are set by the Public Sector Audit Appointments (PSAA) and are contained within existing budget provision.

Staffing : None from this report

Equality and Diversity including Human Rights : None from this report

Data Protection Implications : None from this report

Climate Related Risks and Opportunities: None

Section 17 Crime and Disorder Considerations: None

Health Implications: None

Title and Location of any Background Papers used in the preparation of this report :
None

Risk Assessment :

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

Introduction

1.1 The External Audit Strategy Memorandum (Plan) for 2019/20 is attached at Appendix A and will be presented by Michael Norman, Senior Manager at Mazars LLP.

1.2 The purpose of this document is to:

- Summarise the Audit Approach
- Highlight significant audit risks
- Highlight areas of key judgements
- Materiality Levels
- Provide details of the External Audit Team
- Fee for Audit and Other Services

1.3 The main points of note are as follows:

- The audit approach remains as per previous years

Nov - Jan 2020	Planning
Feb - Apr 2020	Interim Audit
May - Jul 2020	Field Work
Jul 2020	Completion of Audit

- Significant Audit Risks highlighted are:
    - Management override of controls
    - Valuation of Property, plant and equipment, investment properties and assets held for sale
    - Valuation of Net Defined Benefit Liability (Pensions)
    - Fraudulent Revenue Recognition – this is considered as a standard risk for all audits but Mazars do not consider it to be a significant risk for West Lindsey District Council.

1.4 Key judgements highlighted are:

- Minimum Revenue Provision (MRP)
- Group Accounts

1.5 Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatement in financial statements are considered material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Initial materiality levels are:

Overall Materiality	£850,000
Performance Materiality	£680,000
Triviality	£ 26,000

1.6 The Audit team for 2019/20 are, Mark Dalton, Director and Engagement Lead (In 2018/19 this was Mark Surridge) and Mike Norman, Senior Manager at Mazars LLP.

1.7 The annual audit fee for Code Audit Work 2019/20 is £33,420 (£33,420 2018/19) and for Housing Benefit Claim Assurance 2019/20 £5,800 (£5,800 2018/19).

Draft Audit Strategy Memorandum

West Lindsey District Council

Year ending 31 March 2020

MAZARS

CONTENTS

1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Audit risks and key judgement areas
5. Value for Money
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Mazars' client service commitment

This document is to be regarded as confidential to West Lindsey District Council. It has been prepared for the sole use of the Governance and Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Governance and Audit Committee Members
West Lindsey District Council
Guildhall
Marshall's Yard
Gainsborough
Lincolnshire
DN21 2NA

9 December 2019

Dear Committee Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for West Lindsey District Council for the year ending 31 March 2020

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing West Lindsey District Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07795 506 766.

Yours faithfully

Mark Dalton
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of West Lindsey District Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/.

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Council.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Governance and Audit Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

Mark Dalton
Director and Engagement Lead

E-Mail: mark.dalton@mazars.co.uk
Tel: 07795 506 766

Mike Norman
Senior Manager

E-Mail: Michael.norman@mazars.co.uk
Tel: 07909 984151

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

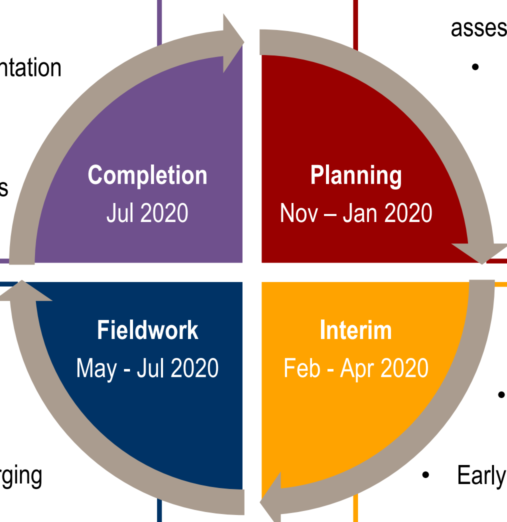
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to Governance and Audit Committee
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Council
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson *Actuary for Lincolnshire Pension Fund*	PWC *Consulting actuary appointed by the NAO*
Property, plant and equipment valuation	Wilks, Head and Eve LLP *External valuation specialist*	Gerald Eve *Valuations expert appointed by the NAO*
Business Rates Appeals valuation	Inform CPI Ltd *Analyse LOCAL Valuation System*	*Not Applicable*
Financial instrument disclosures	Link Asset Services *Treasury management advisors*	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Payroll Expenditure	North Kesteven District Council *The payroll entries that form part of the Council's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by North Kesteven District Council on behalf of the Council.*	We will review the controls at the Council over these transactions and gain an understanding of the work of the service organisations. We will conclude whether the Council has sufficient controls in place over the services provided by the payroll and business rates service and whether we will be able to audit these items of account based on the records held at the entity.
Business Rates Income	City of Lincoln Council *The Business Rates system is administered by City of Lincoln Council on the Council's behalf*	

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures, and we will take the Head of Internal Audit's Annual Report findings into account in forming our Value for Money Conclusion.

Group audit requirements

The Council's group structure for 2019/20 will include:

- WLDC Trading Limited (the holding company)
- Surestaff Lincs Limited
- WLDC Staffing Services Limited

The Council has not in previous years prepared group accounts on the grounds that these companies were not material and are not therefore expected to fall within the scope of our audit. We will review the Council's updated assessment of these arrangements for this year's financial statements. We say more on our planned approach at page 14.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

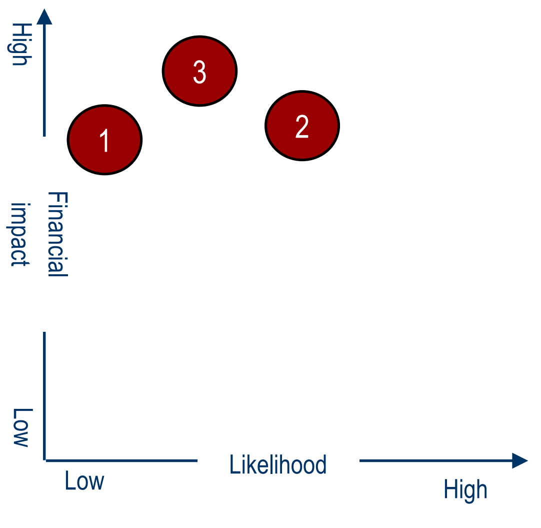
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the tables below, highlight those risks which we deem to be significant or enhanced. We have summarised our audit response to these risks over the next pages.

At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the Council's key financial systems and general IT controls. We aim to complete this work as part of our interim visit in February and will update the Governance and Audit Committee where we subsequently identify any additional risks.



Risk	
1	Management override of control
2	Property, plant and equipment valuation
3	Defined benefit liability valuation

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Governance and Audit Committee .

Significant risks

	Description of risk	Planned response
1	**Management override of controls** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk by performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
2	**Valuation of property, plant and equipment, investment properties and assets held for sale** The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.	In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will: • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Consider whether the overall revaluation methodologies used by the Council's valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Review the reasonableness of the indices applied by the valuer and consider any movement in valuation between the revaluation date and the year end; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • Critically assess the approach that the Council adopts to ensure that any assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer's; and • Test a sample of items of capital expenditure in 2019/20 to confirm that the additions are appropriately valued in the financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	**Valuation of net defined benefit liability** The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	In relation to the valuation of the Council's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary, Hymans Robertson; • Liaise with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Consideration of other mandatory risks

Auditing standards require us to consider two standard risks for all organisations:

- Management override of controls; and
- Fraudulent revenue recognition.

We have already considered and identified management override of controls as a significant risk above, but set out our considerations in respect of fraudulent revenue recognition below:

	Description of risk	Planned response
1	**Fraudulent revenue recognition** Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.	We do not consider this to be a significant risk for West Lindsey District Council as: • there is an overall low risk for local authorities, and particularly this Council; • there are no particular incentives or opportunities to commit material fraudulent revenue recognition; and • the level of income that does not derive from either grant or taxation sources is low relative to the Council's overall income streams, and generally represents a number of low value, high volume transactions. We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks and key areas of management judgement

Enhanced risks and key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	**Minimum revenue provision (MRP)** Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The Council borrowed £11m in 2018/19 to support its capital expenditure and has borrowed a further £5.5m in 2019/20. The amount to be set aside each year is not prescribed although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision. Under its current policy the Council does not commit to set aside a MRP for commercial investment properties where the asset is expected to be held for a set period, at the end of which a capital receipt is expected to be realised and therefore funds will be available to repay borrowing. The Statutory Guidance issued by MHCLG states that there is a requirement to make MRP on capital expenditure financed by borrowing on investment properties. The potential amount of MRP not made for 2018/19 (£64k) was not material for our audit opinion. In our 2018/19 Audit Completion Report we stressed that it was important that the Council continues to ensure that, in departing from Statutory Guidance, it is able to demonstrate that it is continuing to act reasonably, that Members understand the implications, and that its approach is prudent.	We plan to address this judgement by: • Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance; • Assessing whether the provision has been calculated and recorded in accordance with the Council's policy; • Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and • Challenging management's justification for the policy in the context of the Statutory Guidance and the Council's expenditure and borrowing..
	Group Accounts The Council has interests in companies and other entities that have the nature of joint ventures. Management's judgement in 2018/19 was that there was no material impact on the Statement of Accounts and Group Accounts were not prepared. It is expected that a similar line is to be followed for the Council's 2019/20 accounts.	We will review the assessment carried out by management for 2019/20 and challenge the reasonableness of judgments management has made.

5. VALUE FOR MONEY

Our approach to Value for Money

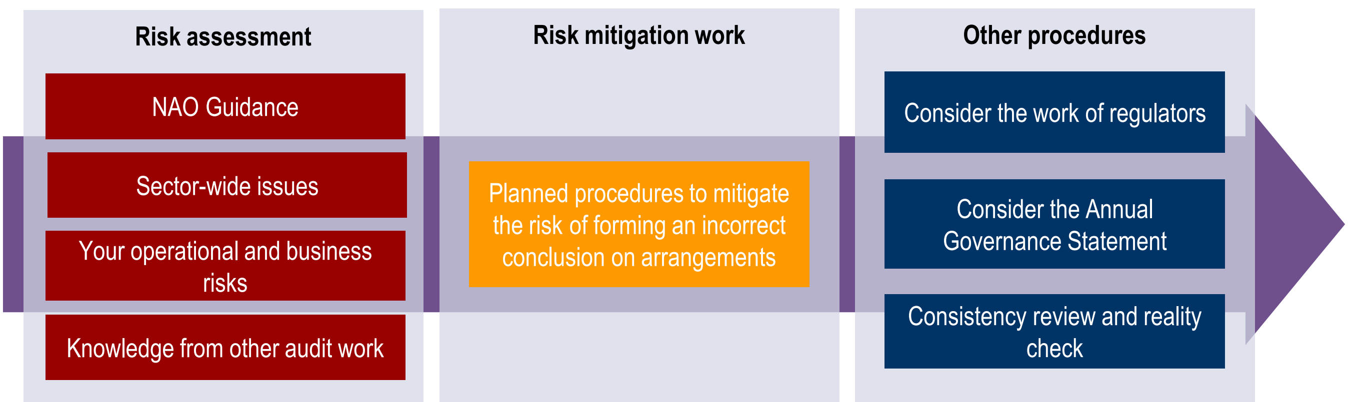
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have not identified any significant VFM risks. We have though identified the following as matters which we need to keep under close review during our audit:

- Commercialisation - The Council has continued with its programme of commercial property investments. There is an approved £30m for these investments, with around £16m spent to the end of 2018/19 on 5 properties and a further £7m budgeted for 2019/20. This expenditure has been is largely funded by internal and external borrowing. Under the Council's current MRP policy it proposes that the Council will not be making MRP provision for investment property expenditure, which is a departure from the relevant Statutory Guidance. We will continue to track the governance arrangements supporting these investment decisions and consider the Council's justification for its MRP policy.
- Financial sustainability – the opening MTFS identified a likely funding gap of nearly £0.5m by 2023/24. The Council has continued to work on updating forecasts and modelling its funding requirements. We need to consider the progress made and update our assessment of this risk area before forming our final VFM conclusion.

We will continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a risk to our VFM conclusion does exist and where any such risk is identified, these will be reported to the Governance and Audit Committee as part of our Audit Completion Report.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 24 April 2019. Any proposed increases to the fee to address, for example, changes to the identified risks or other additional required work will be discussed with the Executive Director of Resources before approval is sought from PSAA.

Service	2019/20 fee	2018/19 fee
Code audit work	£33,420	£33, 420

Fees for non-PSAA work

We have been separately engaged by the Council to carry the following additional work over the fees outlined above in relation to our appointment by PSAA. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived

Service	2019/20 fee	2018/19 fee
Housing Benefit Claim Assurance	£5,800	£5,800

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Dalton in the first instance.

Prior to the provision of any non-audit services Mark Dalton will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

As we have not been engaged to carry out any non-audit work to date, no threats to our independence have been identified. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold £000s
Overall materiality	£850
Performance materiality	£680
Trivial threshold for errors to be reported to the Governance and Audit Committee	£26

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the 2018/19 audited total gross expenditure. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Governance and Audit Committee .

We consider that total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 2% of the benchmark based on the 2018/19 audited financial statements.

Based on the 2018/19 audited financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be £850,000.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our second year of audit, we have cumulative audit knowledge about the Council's financial statements, and there were no significant matters arising last year. We have therefore set our performance materiality at 80% (increased from 70% last year) of our overall materiality being £681,000.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account::

Item of account	Specific materiality
Officers' remuneration	£5,000 *
Members' allowances and expenses	£58,000
Related Party Transactions	£50,000
External audit costs	£7,000

* Reflecting movement from one salary band to another

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Governance and Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £26,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Dalton.

Reporting to the Governance and Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Governance and Audit Committee :

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2019/20

There are no significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2019/20.

Changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies. The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet. In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.

Agenda Item 6d

Governance & Audit Committee	
Tuesday 14th January 2020	

Subject: Annual Governance Statement 2018/19 Action Plan Update

Report by:	Executive Director of Resources
Contact Officer:	Corporate Policy Manager & Deputy Monitoring Officer
Purpose / Summary:	To review the progress with the Annual Governance Statement 2018/19 Action Plan.

RECOMMENDATION(S): That Members seek assurance that the current position of the Annual Governance Statement Action Plan for 2018/19, will result in the completion of all relevant actions by July 2020.

IMPLICATIONS

Legal: The Annual Governance Statement details compliance with the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit Regulations (amendment) (England) Regulations 2011.

Financial: FIN/143/20/JA

There are no financial implications arising from this report.

Staffing: None

Equality and Diversity including Human Rights: None

Data Protection Implications: None

Climate Related Risks and Opportunities: None

Section 17 Crime and Disorder Considerations: None

Health Implications: None

Title and Location of any Background Papers used in the preparation of this report :

None.

Risk Assessment: Risk management arrangements are part of corporate governance and issues raised under the arrangements were included within the Annual Governance Statement for this period.

Call in and Urgency: None

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	x

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	x

1. Introduction

1.1 The Annual Governance Statement is the formal statement of the quality of the Council's governance arrangements, in accordance with the Accounts and Audit (England) Regulations 2011.

1.2 In July 2019, the Governance and Audit Committee agreed the Annual Governance Statement for 2018/19 and noted that an action plan would be put in place and monitored by the Committee to address a number of issues.

2. Significant Issues 2018/19

2.1 The four issues that were identified for development were:

I. **Risk Management** – Assess the Council's overall 'risk appetite' and subsequently undertake a review of Strategic Risks and develop a means of ensuring that project related risks are consistently recorded and managed

II. **Peer Review** - Prepare for and hold a Peer Review to set improvement targets and seek third party accreditation against a nationally recognised framework

III. **Governance Review** - Work on the findings of the Governance Review, undertaken by Internal Audit, to ensure the Council's culture and values are consistently understood and exhibited

IV. **Member Induction & Training** - Induct new and returning Councillors and implement the Member Development Training Plan

2.2 These issues had been identified as a result of the Council's annual Combined Assurance Report, or the key strategic importance of the issue to the Council.

3. The Action Plan

3.1 Progress is being made across all issues contained within the Action Plan. Two actions have been completed; Risk Management and Member Induction & Training.

3.2 At this stage it is anticipated that the remaining two issues (Peer Review and Governance Review) will be adequately addressed within the set timescales.

3.3 Further details are contained within the attached document.

3.4 Members will receive a further progress report in 2020.

Annual Governance Statement 2018/19 Action Plan

Issue	Description	Action	Current Position	Date Due	Officer	BRAG
Risk Management	Assess the Council's overall 'risk appetite' and subsequently undertake a review of Strategic Risks and develop a means of ensuring that project related risks are consistently recorded and managed	1. Identify key strategic matters 2. Undertake risk appetite training with key officers/Members 3. Populate strategic risk register 4. Refresh Council's Risk Strategy 5. Obtain approval from G&A Cttee	1. Corporate Plan (2019-2023) approved setting out strategic priorities. 2. Risk appetite workshop held with Mgt Team. 3. Strategic risks identified and framework for their capture and management approved. 4. Members' risk appetite established. 5. Risk Strategy 2019-2023 approved at G&A Cttee Oct 2019. 6. Risk Mgt Training delivered for Members and Staff Oct 2019.	31/03/2020	I. Knowles	Black
Peer Review	Prepare for and hold a Peer Review to set improvement targets and seek third party accreditation against a nationally recognised framework	1. Prepare effectively for the review in Jan 2020 2. Hold review and facilitate requests of relevant personnel 3. Receive feedback and recommendations 4. Present findings to Members 5. Draw up plan to implement recommendations	1. Lead officer appointed 2. ToR agreed. 3. Timetable agreed for Peer Review at WLDC – Jan 2020. 4. Awareness sessions held with staff and Members Nov 2019. 5. WLDC Position Statement produced	31/07/2020	I. Knowles	Green
Governance Review	Work on the findings of the Governance Review, undertaken by Internal	1. Review findings with Mgt Team	1. Findings discussed with Mgt Team and action plan developed	31/07/2020	I. Knowles	Green

	Audit, to ensure the Council's culture and values are consistently understood and exhibited	2. Allocate actions to key officers. 3. Monitor and review progress 4. Report on completion to Mgt Team and G&A Cttee. Incorporate main aspects onto AGS for 2019/20 5. Arrange for re-evaluation exercise to be held	2. Monitoring of progress underway			
Member Induction & Training	Induct new and returning Councillors and implement the Member Development Training Plan	1. Complete initial induction programme and obtain Member feedback 2. Convene Member Development Group (MDG) 3. Finalise year 1 plan and present to G&A Cttee Oct '19	1. Initial induction programme and feedback process completed. 2. Meetings arranged for MDG. 3. Training plan agreed by G&A Cttee Oct 2019.	31/03/2020	I. Knowles	Black

Agenda Item 6e

	Governance & Audit Committee
	Date: 14th January 2020

Subject: Combined Assurance Report 2019/20

Report by:	Executive Director of Resources: Ian Knowles
Contact Officer:	Corporate Policy & Governance Manager 01427 676537
Purpose / Summary:	To present the Council's Combined Assurance Report for 2019/20.

RECOMMENDATION(S):

1) **Committee be assured that the findings illustrate that the Council's governance framework is operating effectively;**

2) **To approve the report.**

IMPLICATIONS

Legal: None

Financial: FIN/156/20/TJB None from this Report

Staffing: None

Equality and Diversity including Human Rights: None

Risk Assessment: None

Climate Related Risks and Opportunities: None

Title and Location of any Background Papers used in the preparation of this report:
None.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**X**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**X**

Introduction

1.1 The purpose of the Combined Assurance Report is to produce a record of assurances against our critical activities and risks. It provides an overview of assurance across the Council making it possible to identify where assurances are present, their source and where there are potential assurance ‘unknowns or gaps’. It offers a tri-angulated view of assurance with separate opinion provided by management; corporate and/or third party assurance and Internal Audit. The Combined Assurance Report is produced annually and this report covers the financial year ending 31st March 2020.

2 Combined Assurance Report

2.1 This is the latest Combined Assurance Report undertaken at West Lindsey District Council. It provides a view on assurance systems and services for the financial year ending March 2020. The report is available as Appendix 1.

2.2 The report details the methodology that was used and the levels of assurance that we currently have. The assurance assessment, as explained in the report, is based on the ‘three levels of assurance’ model.

2.3 By conducting this work, we are in a position to be able to identify where we need to obtain further assurance and at what levels. The findings will be used to focus on areas for improvement and potentially form the issues to be addressed within the Council’s Annual Governance Statement.

3 Findings

3.1 This report, as presented, represents a realistic, yet positive picture of the levels of assurance in place across the Council and illustrates that our assurance framework is working well.

3.2 The findings shows that across the critical activities and emerging risks which were within the report’s scope; 72% were assessed as performing well (green); 25% required some attention (amber) and 3% were in need of urgent attention (red). Last year’s findings; using the same methodology, were green (65%) and amber (33%) and red (2%).

3.3 The ‘field-work’ identified a number of potential emerging risks which were discussed with the Management Team. It was acknowledged by the Management Team that the identification of emerging risks on the part of Team Managers is an essential aspect of effective service management and this input was welcomed.

3.4 Three percent of the areas included in the assessment were rated as ‘red’ in nature. This amounted to four matters out of the 119 that were assessed. None of these related to a transactional or front-facing service area; rather they were a combination of an emerging risk, a project and the risk rating assigned to two of the Council's strategic risks. Details are as follows:

Category	Description
Emerging Risk	Strategic Capacity: Changes at Executive Director level have contributed. This is expected to be mitigated when Senior and 2nd tier management structure is finalised.
Project	Agri Food Sector: Project cannot currently proceed due to landowner restrictions so moved to a pipeline project
Strategic Risks	Inability to raise local educational attainment and skills levels
	ICT Security and Information Governance arrangements are ineffective

3.5 Those transactional, front-facing activities, categorised as 'amber' in nature in this year's report are set out below with the respective reasons for their rating and actions underway to address matters. In all cases the issues identified were known to the Council and oversight/actions were already in situ:

Environmental Protection and External Health & Safety: Both of these areas have suffered from capacity issues recently. While this has been addressed, the focus is on ensuring that staff skills are developed and policies are updated.

Gainsborough Markets: This service has improved since last year's report, following new initiatives to attract greater footfall and new traders. The on-going sustainability and effectiveness of the initiatives are being monitored.

Wellbeing Contract: This tri-authority contract is not currently meeting all expectations and therefore a review of its operations is underway.

Community Safety & ASB: While now operating at full capacity and the team structure has stabilised, performance of the service, being high profile in nature, is being monitored to ensure it is fully effective.

Building Control: This service has lost key personnel over the recent past with recruitment proving difficult. The good reputation of the service must be maintained and impacts on its income generating capabilities are being evaluated.

Local Land Charges: The ability to meet targets and staff shortages means that this service is being monitored. Achieving a sustainable level of staffing level is a priority and regular performances reports are prepared for senior management.

Licensing: An experienced manager has recently retired resulting in a new structure being currently trialled.

3.6 The content of the report and the thoughts of the Council's senior management have identified a number of key areas of focus for the year ahead. These are:

- **Procurement** – undertake a user survey to identify satisfaction levels with the current arrangements to identify any issues to inform options on future delivery.
- **Equality & Diversity** – Review current policies, procedures, awareness and training requirements to ensure the Council is cognisant of and up to date in respect of its obligations in this regard.

3.7 Operating in an environment of constant change and uncertainty, service areas assess and monitor any emerging risks that may affect the delivery of their service. These have been captured and commented on within the Combined Assurance Report and all have been classified. One is regarded as a high risk (red) with the remaining eight rated as medium risks (amber). These classifications have been fed into the overall green, amber and red ratings contained within the report. In comparison to last year's report, there has been a significant reduction on the number of emerging risks

3.8 The identification and management of risk are regarded as key disciplines. We are pleased that an appreciation and awareness of risk management was evident and captured during the collation of the report.

4 Next Steps

4.1 The report will be used as a basis for learning and improvements and service planning and will be updated to provide an overall level of assurance, focusing on the areas (detailed at 3.5 above) for the Council in achieving strategic objectives for the 2020/21 period.

4.2 The findings of the report will be taken into consideration when forming Internal Audit's work plan for 2020/21 and the Council's Annual Governance Statement for 2019/20.

Combined Assurance Status Report

West Lindsey District Council
January 2020

Assurance LINCOLNSHIRE
For all your assurance needs

West Lindsey DISTRICT COUNCIL

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Transactional Services
Governance
Resources
ICT
Emerging Risks
Key Projects
Key Partnerships

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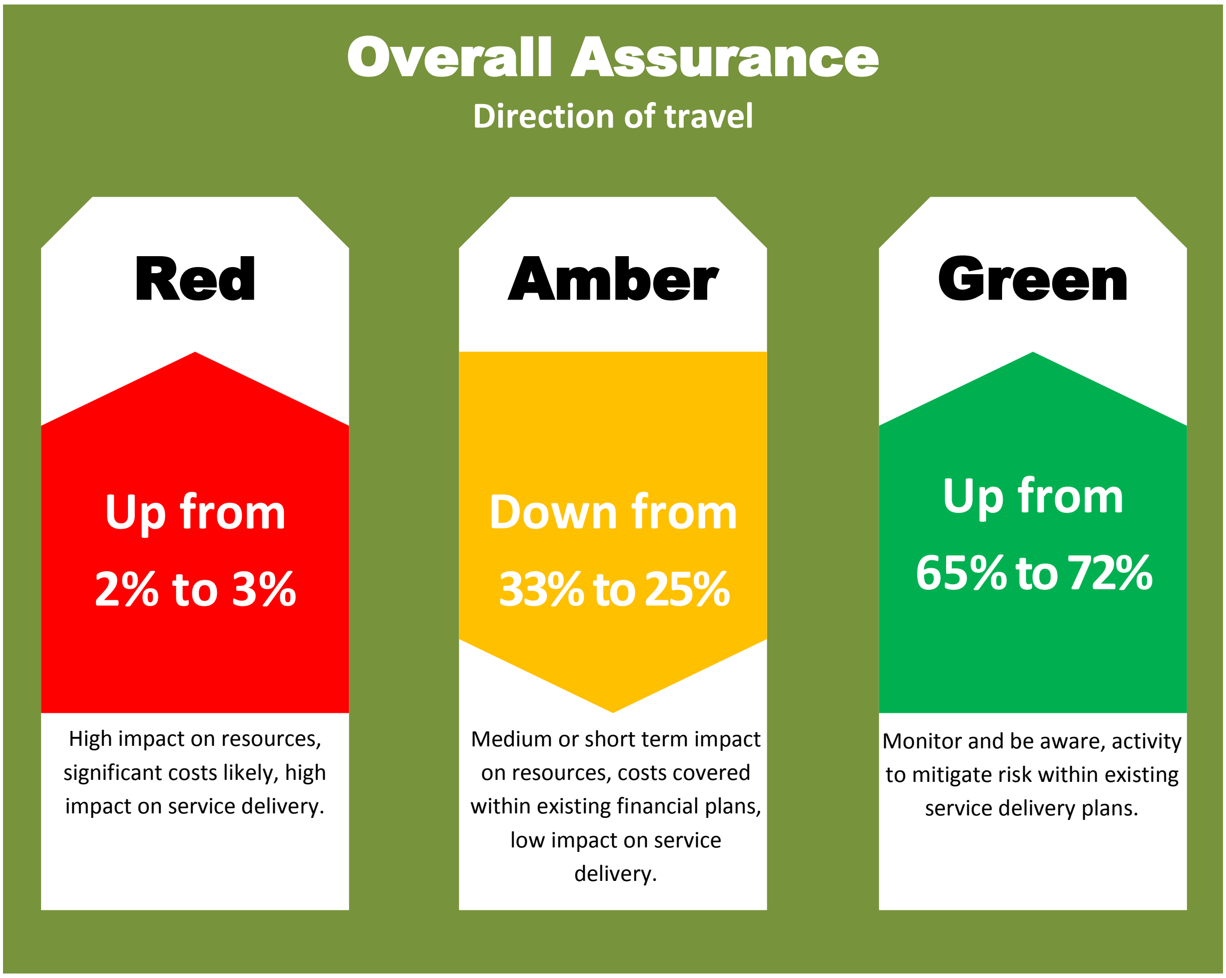
Overview of Assurance

Combined assurance is a structured means of identifying and mapping the main sources and types of assurance in the Council and coordinating them to best effect.

It enhances risk management by providing an effective and efficient framework of sufficient, regular and reliable evidence of assurance on organisational stewardship and management of major risks to the Council's success.

We do this using the three lines of defence model.



Summary

We thank Assurance Lincolnshire for producing the Council's latest Combined Assurance Report and also the Council's Team Managers for providing their input into the process. The report is something that we value and recognise as being extremely beneficial in highlighting aspects of Council business that are operating well, while also identifying other areas that require greater focus and/or some level of intervention.

The findings are welcome and represent a comprehensive and accurate view of our assurance position across our services, critical systems, governance processes, ICT arrangements, key projects, partnerships and risk analysis.

The report illustrates that our three lines of defence governance model is operating effectively. Team managers have a good awareness of how their service is performing, are able to identify potential issues and most importantly, are pro-active in implementing remedies or raising to senior management the need for such action. They are empowered to do this and it is pleasing to see that this is taking place.

Almost three quarters of the Council's key service functions and critical activities are deemed to be operating well. This is a good level of performance within the current context of on-going financial pressures and rising customer expectations.

During 2019/20 a significant range of activity across the Council was undertaken. This included the production and approval of the Council's new Corporate Plan covering the period 2019-2023. This sets the strategic framework for the Council over the next four year period and coincides with the terms of office of the new Administration which was elected in May 2019.

The Council elections in themselves were a key consideration. All new and returning Members were inducted, provided with ICT devices and supported by an initial training and awareness programme. A longer-term training programme has been devised to provide on-going development opportunities for Members.

The Council's risk management strategy and strategic risks were also revised during the year. This involved positive engagement with both Members and officers to assess the Council's overall 'risk appetite' and appreciation of risk.

Progress has been made against delivery of the Council's Executive Business Plan for 2019/20 and key capital projects have progressed satisfactorily. The new Crematorium facility is on track to open in early 2020. The dry-side Market Rasen leisure facility is going to plan with opening due in May 2020 and work has progressed to deliver a new Council Waste Depot in late 2020 or early 2021. Industrial units have been developed in Saxilby and similar development is underway in Caistor.

Day to day service delivery has been conducted to a high standard. Customer satisfaction levels report that over 70% of customers are satisfied, or highly satisfied, with the service they have received.

The Council is also currently preparing for a Corporate Peer Challenge in January 2020, which it has requested from the LGA. This exercise will be useful in assessing how the Council is structured and governed, acts as a community leader, ensures it has sufficient capacity and capability to meet corporate objectives and also how it performs across its range of service areas.

Challenges lie ahead; not least the future funding arrangements for the Council, issues in recruiting to specialist positions and how to maintain impetus in the growth agenda, which the Council has worked hard to stimulate and support over recent years.

Strategic Risks

Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability. This puts us in a stronger position to deliver our goals and provide excellent services.

The Council approved a new Risk Management Strategy (2019-2023) in October 2019. This sets the framework within which the Strategic Risk Register is regularly reviewed and supports the effective management of risks.

Risk	Actions for Improvement	Current risk rating	Target risk rating
Health and Wellbeing of the District's residents does not improve	Health partnership is under review and there is a need to develop a Wellbeing strategy.	9	6
Inadequate support is provided for vulnerable groups and communities	Produce a baseline of district demography and cross-reference data. Produce detailed understanding of housing need (Gainsborough). Build on success of alchemy event and secure access foundation award. Gainsborough South West Ward and Hemswell strategies. Financial assistance and poverty reduction schemes to be implemented.	9	6
Inability to raise local educational attainment and skills levels	Measure effectiveness of existing actions and draw learning. Deliver against West Lindsey Employment and Skills Strategy and Delivery. Consider role WLDC as an employer can play in further supporting this agenda.	12	9
The local economy does not grow sufficiently	Planning for growth initiative with Greater Lincs. Review of planning policies in general and the review of the Local Plan in particular.	9	6
The local housing market and the Council's housing related services do not meet demand	Review the need for strategic capacity within the service.	9	6
Insufficient action taken to create a cleaner and safe district	Review of available technology to support enforcement action. Ensure permanent resource is in place to prevent enviro crime.	8	4
Inability to set a sustainable balanced budget	Business plan for Crematorium to be reviewed/refreshed. Financial resilience to be assessed.	8	8
The quality of services do not meet customer expectations	Implement actions from the Governance Review – Culture and values. Hold Peer Review – January 2020	8	8

Risk	Actions for Improvement	Current risk rating	Target risk rating
Inability to maintain critical services and deal with emergency events	Draw up schedule of testing of relevant internal plans.	8	8
Failure to comply with legislation including Health and Safety matters	Approve and deliver new waste services depot to provide a safer working environment.	8	8
ICT Security and Information Governance arrangements are ineffective	Deliver against 10 year infrastructure development plan.	12	8

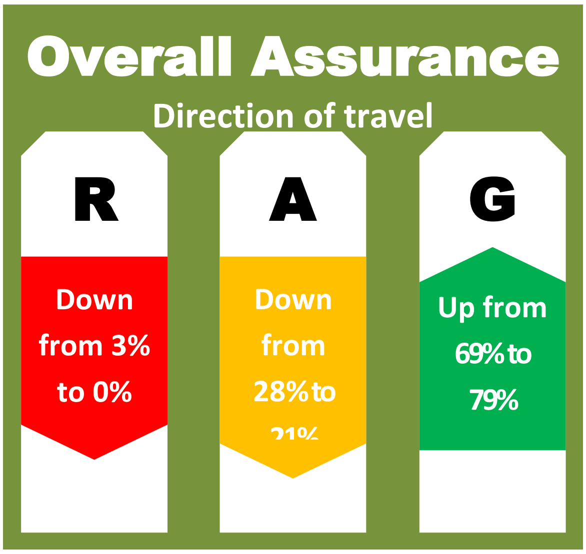
Key	Risk
Red	High impact on resources, significant costs likely, high impact on service delivery
Amber	Medium or short term impact on resources, cost covered within existing financial plans, low impact on service delivery
Green	Monitor and be aware , activity to mitigate the risk within existing service delivery plans / management arrangements

Key Messages

Transactional Services

Objectives – Transactional services refer to the agreed set of services and functions run by the Council. Each service area should have clarity of its purpose, an understanding of their stakeholders and clear processes for delivery and managing performance.

Our transactional services are in the main ‘front-facing’ and the delivery of excellent performance and high levels of customer satisfaction are key pre-requisites. These two components contribute in a large part to the reputation of the Council amongst residents and Members. The report has found that almost 80% of the Council’s transactional services are performing well and none are rated as ‘red’ in nature.



Critical Activities
Amber
Environmental Protection
External Health & Safety
Gainsborough Markets
Wellbeing Contract
Community Safety and ASB
Building Control
Local Land Charges
Licensing

The areas classified as amber within the report are all on the radar of senior management. Remedial or improvement actions are being implemented, or close monitoring is underway to establish if further action is necessary. Further information related to each of the amber rated areas is set out below.

Environmental Protection and External Health & Safety: Both of these areas have suffered from capacity issues recently. While this has been addressed, the focus is on ensuring that staff skills are developed and policies are updated.

Gainsborough Markets: Following new initiatives to attract greater footfall and new traders, the performance of this service has improved since last year’s report. The on-going sustainability and effectiveness of the initiatives are being monitored.

Wellbeing Contract: This is not functioning as well as expected so it is being re-visited.

Community Safety & ASB: While now operating at full capacity and the team structure stabilised, performance of the service, being high profile in nature, is being monitored to ensure it is fully effective.

Building Control: This service has lost key personnel over the recent past with recruitment proving difficult. The good reputation of the service must be maintained and impacts on its income generating capabilities are being reviewed.

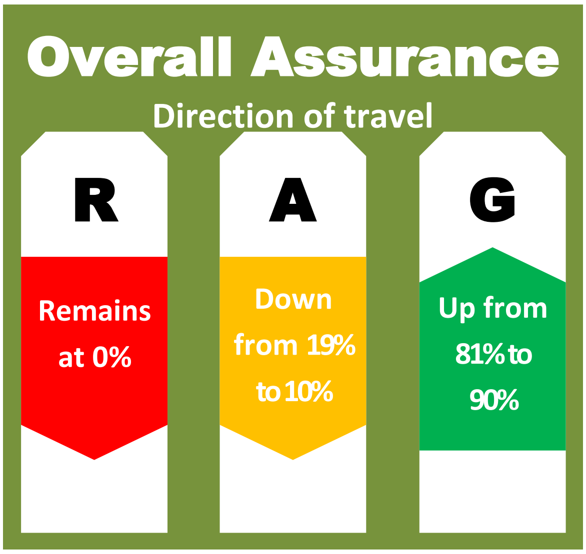
Local Land Charges: The ability to meet targets and staff shortages means that this service is being monitored. Achieving a sustainable level of staffing level is a priority and regular performances reports are prepared for senior management.

Licensing: An experienced manager has recently retired resulting in a new structure being currently trialled.

Key Messages

Governance

Objectives – This section includes areas such as corporate governance, risk management, partnerships, information governance, procurement and contract management, Human Resources, project management and Member and Democratic Services.



Critical Activities
Amber
Procurement
Equality and Diversity

Similar to recent years the findings of the report show that the vast majority of our governance elements are deemed to be operating effectively.

Again, the emphasis concerning governance related matters is to ensure that the Council's arrangements are robust yet proportionate and support effective decision making.

Two areas of focus have been identified within the report, Firstly the Council's procurement procedures are deemed to be in need of review. During 2019/20, there have been instances whereby procurement has not operated as effectively as desired and has led to delay in the delivery of projects. The Council's current arrangements and procedures are reviewed each year. It is therefore essential that concerns or issues are raised during the review process so as to make the procedures more effective. For high value or technical procurements, the Council draws on expertise provided by Procurement Lincolnshire. In the main this arrangement works effectively and over the last two years has helped to generate over £150k of savings, on like for like contract/procurement renewals.

Furthermore, while it is expected that from time to time challenges to procurement decisions will be received on the part of unsuccessful bidders, no challenges received by the Council have been upheld. This demonstrates that in the main, our procedures are effective and compliant.

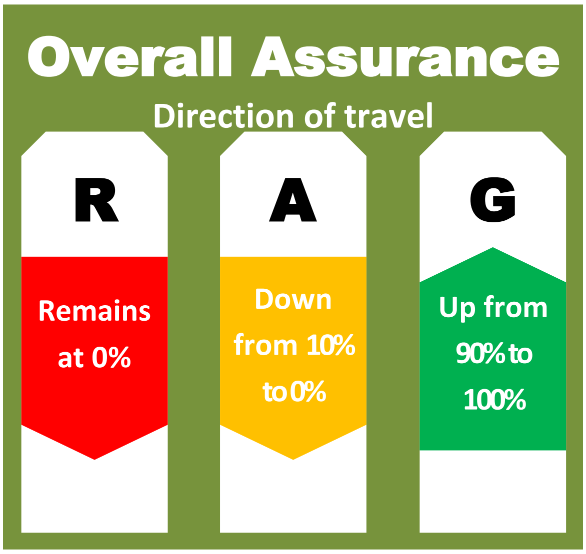
To look further into procurement related matters, a survey of users of the procurement service is to be undertaken and any issues identified will be considered.

Secondly the Council's approach and consideration of Equality & Diversity requires a fresh look. The current policy and principles require a refresh and training for staff would also be beneficial. There is no evidence however, to suggest that in the course of its operations, the Council acts in a discriminatory manner.

Key Messages

Resources

Objectives – This aspect relates to the functions that support the running of the Council and ensure compliance with policies and set procedures.



The findings across this section of the report are extremely welcome. Our arrangements overseeing Council Tax, National Non-Domestic Rates (NNDR), Housing Benefits, financial management controls and the governance of grants are all performing well.

The findings were ascertained after due consideration had been given to a range of indicators against which individual areas could be assessed. These indicators included performance, costs of delivery, the quality and breadth of project and risk management within the area and any conclusions from recent audits.

Many of the areas included under the Resources heading are subject to annual audits due to statutory requirements. The results of these audits during 2019/20 have all provided substantial or full assurance conclusions. This demonstrates that the Council's processes to support financial and budgetary management and governance are robust and operating effectively.

A further key success in this category was the receipt, for the second year running, of an unqualified audit finding in respect of the Council's Housing Benefit subsidy claim. Only around one in five Council's receive this rating in any year.

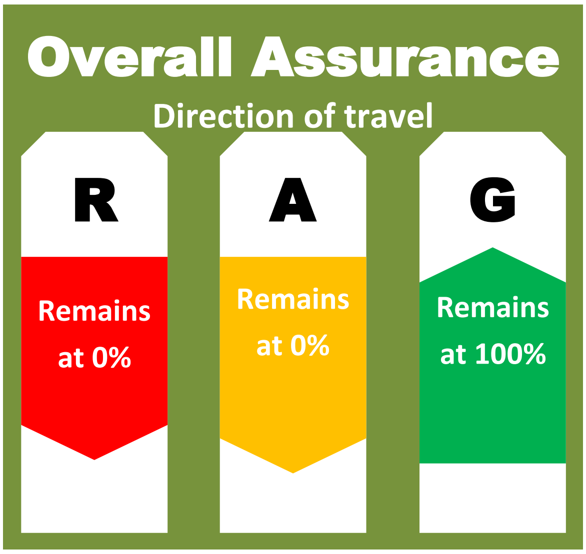
In last year's report, NNDR was flagged as a concern. This was due to instances of poor communication between the service provider and the Council. This led to a lack of awareness of some NNDR initiatives outside of normal performance reporting activities. These matters have been addressed and the function is now operating more effectively.

Additionally, last year's report assessed the Council's CCTV service as amber. This service had expanded its coverage over recent times, but last year the appropriate level of resource to support it had yet to be fully established and as such, hindered the prospect of any further growth. Again, action has been taken to enable the service to expand coverage to additional locations across the District.

Key Messages

ICT

Objectives – The ICT aspect of the report focuses on governance arrangements within the



service, the infrastructure, day to day operations, projects, compliance and applications and systems. All aspects have been rated 'green' in nature and are therefore deemed to be performing well.

The shared ICT partnership with North Kesteven District Council continues to operate effectively. It has overseen the production of a 10 year infrastructure development plan, which has been costed and identifies opportunities for rationalisation and efficiencies across the partnership. Similar work is underway in respect of the ICT systems being used at each Council.

During 2019/20 an audit into the capacity and capability of the ICT service was completed. This provided a substantial assurance rating for the service and also provided pointers as to where this position could be further strengthened. Work is in progress to action these.

The service has delivered a number of key projects during the year. One related to the provision of new and returning Members, (following elections in May) with Council issued ICT devices. This replaced the previous policy of Members purchasing their own devices. The whole project ran extremely well and feedback from the vast majority of Members involved has been positive. Internal audit have reviewed this work and are due to report their findings imminently.

ICT security remains a key priority. Once again during 2019/20 no major security breaches or successful attacks on ICT systems were reported. The need for vigilance and staff awareness is an on-going message.

The ICT infrastructure, which the Council operates in conjunction with North Kesteven, has been audited by Internal Audit during 2019/20 and a substantial assurance rating was given. Additionally the LGA provided an external assessment of the infrastructure. Again a high level of assurance was provided, placing the Council in the top 4% of all Councils.

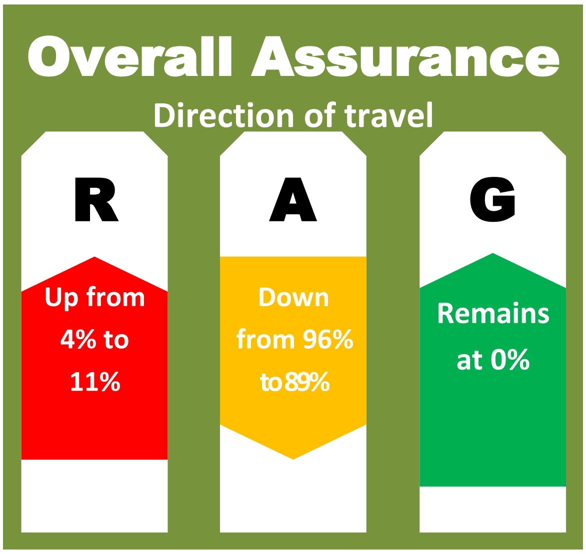
A robust internal system of reporting potential data security breaches in place. This enables officers to record any such instances and instigates action on the part of the Council's Data Protection Officer and the officers involved. A number of instances have been reported throughout the year with a small number referred on to the Information Commissioner's Office (ICO) for consideration. While these reports have been acknowledged by the ICO, no further action has been required.

The Council's Corporate Information Governance Group (CIGG) oversees information governance related matters. It looks for trends within reported breaches and draws up arrangements for on-going communication and awareness messages and also staff training.

Key Messages

Emerging Risks

Objectives – it is impingent on all managers to undertake effective risk management and attempt to minimise the impact of any risks



should they materialise. Looking ahead and horizon scanning to identify any emerging risks is a pre-requisite and it is encouraging that this activity is undertaken across the Council.

Critical Activities	
Red	**Amber**
Strategic Capacity	ICT in projects
	Green Space Development
	Food Waste
	Information at Work upgrade
	Operational Resilience
	Growth Agenda
	Development Management ICT
	Housing related support Contract

During conversations with Team Managers, a number of emerging risks have been identified and have been categorised as detailed above. Commentary against each risk is provided:

Strategic Capacity: A concern was raised that at the same time as managing day to day service delivery, Team Managers are also involved in the delivery of key projects. The capacity to effectively do this is a concern. To address the matter, a review of roles and capacity requirements at the second tier of management is underway.

ICT in Projects: A number of projects requiring ICT input have not identified or communicated this at the scoping stage. The Projects Team will be re-iterating the need to identify and communicate with all stakeholders at the outset of project development.

Green Space Development: There is currently little capacity to develop this theme. However, the review of the Central Lincolnshire Local Plan and work underway to provide the Council with a greater insight into its green spaces across the District will begin to address this matter and also contribute to the development of a co-ordinated response to health and wellbeing priorities.

Food Waste: A pilot providing food waste collections is underway in South Kesteven to look at the implications of this EU directive. The Council is keeping fully abreast of developments and potential implications.

Information at Work Upgrade: Testing has shown that the system is not functioning as required. Discussions regarding contractual arrangements are underway with the providers.

Operational Resilience: The Council has single points of failure where certain expertise is held by individual officers.

Growth Agenda: While there has been considerable recent success to stimulate and deliver growth, external funding streams are currently limited.

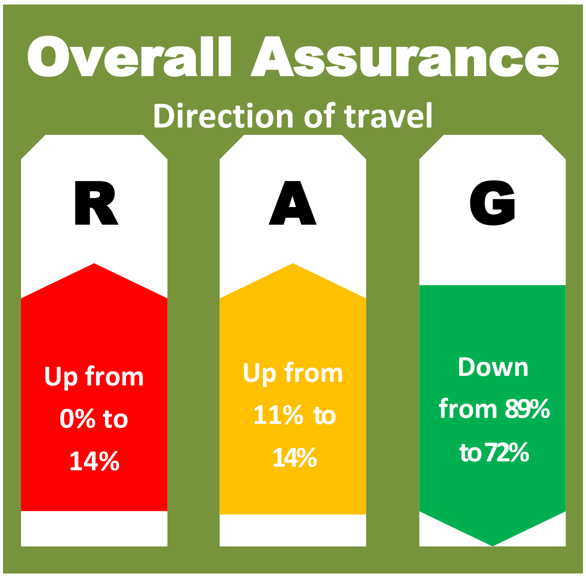
Development Management ICT: The current system does not facilitate efficient working. Work is underway to deliver new systems across the Council as part of the Customer First Programme.

Housing Related Support Contract: The impact of recent changes to thresholds and a new provider have to be fully assessed.

Key Messages

Key Projects

Objectives – During the Combined Assurance mapping exercise, project management was deemed to be working effectively across the Council.



Currently the Council has seven key projects underway and they are at various stages of delivery. Of these, five are progressing as planned. These are:

The Crematorium: on plan to open January 2020

Gainsborough Growth Programme: Development partner secured and additionally work progressing to deliver housing and cinema projects in Gainsborough.

Skills: Made in Gainsborough (MIG) initiative working well and the West Lindsey Employment & Skills Partnership (WLESP) is effective

Leisure: Dry-side facility in Market Rasen on track for delivery in May 2020

Strategic Community Programme: Delivery is good and key support has been provided for a number of vulnerable communities.

Two projects (detailed below) have been rated red or amber.

Critical Activities	
Red	**Amber**
Agri-Food Sector	Customer First Programme

The Agri-Food Sector project has been moved back to a pipeline project as it cannot currently proceed. The reason for this is the current marginal viability of the local market which poses a significant commercial risk to the private sector.

The Customer First Programme is ambitious and cross-cutting in nature and is a key forward-looking initiative that the Council has embarked upon. It carries significant risk and has suffered delays based on procurement issues related to the purchase of a new ICT system and sponsorship of the programme has also changed. Sponsorship is now fully determined and progress is being made on the procurement matter.

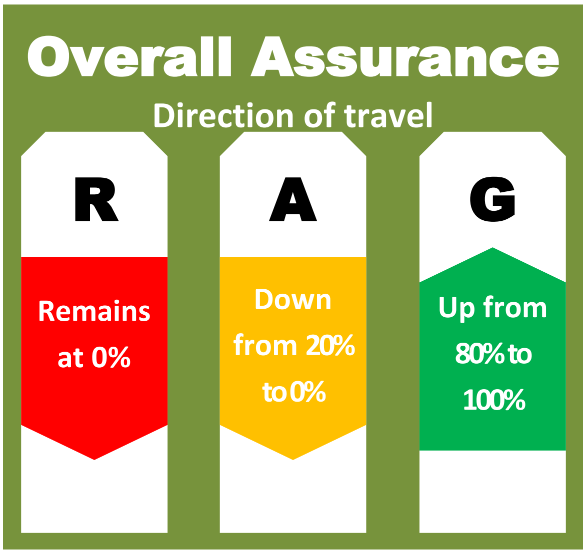
Programme and project management is a key discipline for managers across the Council to demonstrate. Great strides have been made in this area over recent years through the development and implementation of a relevant project management methodology, training for staff and the creation of a team to provide expertise and support for colleagues and also representation on project boards.

Further enhancements are planned through the introduction of an ICT system to support project management and reporting and to also respond to any recommendations arising out of a, soon to be concluded, audit into this subject matter.

Key Messages

Key Partnerships

Objectives - The Council recognises that effective partnership working is key to the achievement of many of its goals and desired outcomes. In that regard it is essential that any partnerships entered into, or are currently in operation, deliver and their on-going relevance and effectiveness are continually evaluated.



Although no issues were raised during the assurance mapping exercise (all partnerships within the scope of the exercise assessed as operating well), there has previously been a recognition that management/corporate oversight and regular review of partnership management could be improved. To that extent, during 2018/19 a review of all of the Council's partnership working arrangements was undertaken. This provided a set definition of partnership working and helped to strip out arrangements that did not fit with this definition. Consequently the key strategic partnerships which the Council is involved in were identified and their effectiveness and on-going relevance have been assessed.

During 2019/20, a further review has taken place with officers involved in partnerships to update the information obtained the year before. In this way, the Council as a corporate body can retain regular oversight and obtain assurance that its partnership working arrangements remain effective.

All key partnerships are recorded and updated on a central register. This provides an accurate record at any given time of such arrangements.

Within this assurance mapping exercise, five key strategic partnerships were assessed. The findings were as follows:

Partnership	Comments
WL/NK ICT Partnership	Recent audit gave positive assurance, continues to work well. There are regular partnership meetings. Strategic work plan in place.
Central Lincs Local Plan	Plans approved and adopted. Revision process commenced.
Muse - the Growth Programme	Five year contract in place, but delivery currently problematic due to viability thresholds limiting current projects. On-going dialogue and exploration of options.
South West Ward	Effective work taking place to regenerate the area and bring about social change
Lincolnshire Waste Partnership	Continues to work well

Governance & Audit Committee	
14 January 2020	

Subject: Draft Internal Audit Quarter 3 Progress Report 2019/20

Report by:	Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)
Contact Officer:	Ian Knowles, Executive Director of Resources Ian.knowles@west-lindsey.gov.uk
Purpose / Summary:	The report gives members an update of progress, by the Audit partner, against the 2019/20 annual programmes agreed by the Audit Committee in March 2019.

RECOMMENDATION(S):	1) **Members consider the content of the report and identify any actions required.**

IMPLICATIONS

Legal: None directly arising from the report

Financial: None directly arises from the report.

Staffing: None.

Equality and Diversity including Human Rights:

NB: A full impact assessment **HAS TO BE** attached if the report relates to any new or revised policy or revision to service delivery/introduction of new services.

None arising from this report

Risk Assessment: N/A

Climate Related Risks and Opportunities: None arising from this report

Background Papers: No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

Call in and Urgency:

Is the decision one to which Rule 14 of the Scrutiny Procedure Rules apply?

Yes		**No**	**X**

Key Decision:

Yes		**No**	**X**

Internal Audit
Progress Report

West Lindsey District Council
December 2019

Assurance LINCOLNSHIRE
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West Lindsey DISTRICT COUNCIL

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2 Details of Overdue Actions
3 Internal Audit Plan 2019/20 Progress to Date

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This report has been prepared solely for the use of Members and Management of West Lindsey District Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not bought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Introduction

The purpose of this report is to:

- Provide details of the audit work during the period September – November 2019
- Advise on progress with the 2019/20 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have completed two pieces of audit work.

Assurances

The following audit work has been completed and a final report issued:

- Key Controls – Financial Resilience – High Assurance
- Assurance Mapping

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

1
HIGH ASSURANCE

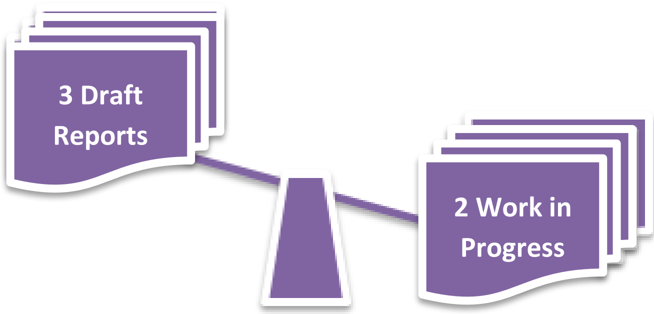
0
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

High and Substantial Assurance

Key Controls – Financial Resilience - High	Our review has provided high assurance opinion that the council has a comprehensive system for assessing, governing, monitoring and reporting its financial resilience. We found that there are plans, strategies, programmes and policies in place, which go into greater detail regarding Council's medium to long-term financial stability and goals. Overall there is a well-established process for monitoring and reporting the financial position of the Council to management and members. There are no significant improvements to be made but we would suggest that going forward the Council schedules regular reviews of the financial resilience indicators it uses to determine that they are still the most relevant and appropriate.



Audits reports at draft

We have three audits at draft report stage:

- Vulnerable Communities
- ICT – Members' Devices
- Corporate Plan and Golden Thread

These will be reported to the committee in detail once finalised.

Work in Progress

We have the following 2019/20 audit's in progress

- ICT – Email Security
- Project and Programmes Management

Benchmarking

Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

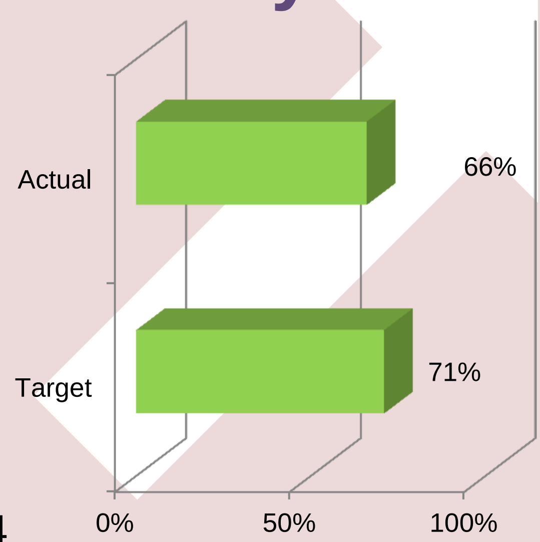
Performance on Key Indicators

100%

Rated our service Good to Excellent

High achievement of Audit KPI's to date

Delivery of Plan



Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

CIPFA Financial Management Code 2019

CIPFA have updated their financial management code for UK Local Authorities to acknowledge the pressures of a tightening fiscal landscape.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:
Financially manage the short, medium and long-term finances of a local authority
Manage financial resilience to meet unforeseen demands on services
Manage unexpected shocks in their financial circumstances.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team.

High	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.
Limited	Our critical review or assessment on the activity gives us a limited level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
Low	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

Appendix 2 Details of Overdue Actions

Outstanding Audit Recommendations at 30th November 2019

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
	There are no outstanding actions.							
Total								

2019/20 Audit Plan to date

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Members Devices with NKDC	Joint review with NKDC to review the training and security of members devices.	Q1 Apr - June 2019	June 2019		Draft Report
Internal P3M3 Project management review support	To support the Council in its review of project and programme management systems against the best practice and standards of the P3M3 maturity model.	Q1 Apr - June 2019	Aug 2019		Work In Progress
Vulnerable Communities	Review the Council's strategic and operational approach and management to address vulnerable communities in the district.	Q1 Apr – June 2019	June 2019		Draft Report
New Depot Project Support	Support the Council on project work to consider the future for the waste depot.	Q1 Apr – June 2019	May 2019		Complete
Housing Benefits Subsidy	Test a sample of benefit cases to on behalf of the external auditor Mazars to provide assurance on the subsidy claimed by the Council.	Q2 July – Sept 2019	May 2019	July 2019	Final Report Substantial
Delivery of the Corporate Plan and the "Golden Thread" concept.	Review the "Golden Thread" concept that links service delivery to Corporate plans to ensure services understand how their work supports corporate aims.	Q2 July – Sept 2019	Aug 2019		Draft Report

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
ICT – Email Security	Review of email security arrangements following ending of GSX email arrangements	Q3 Oct – Dec 2019			Work in Progress
Programme and Project Management	Provide assurance that the Council's Programme and Project management systems are understood by services and complied with.	Q3 Oct – Dec 2019			Work in Progress – fieldwork completed
Key Controls – Financial Resilience	Provide assurance that the Council has clear process and controls in place to manage financial resilience.	Q3 Oct – Dec 2019			Final Report High
Combined Assurance	Document the Council's critical areas to provide an assurance rating to inform the audit plan and report to management and members.	Q3 Oct – Dec 2019			Complete
ICT Cyber Security Joint with NK	Review cyber security controls against best practice and national standards.	Q4 Jan – Mar 2020			
Good Governance follow up	Follow up on the 2018/19 report and recommendations to provide continued assurance on Good Governance and Culture.	Q4 Jan – Mar 2020			

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Key Controls – areas to be agreed	Carry out key control testing on critical Council services.	Q4 Jan – March 2020			
Audit Follow Up work – Planning Enforcement & Food Safety & Environmental Protection.	Follow up 2018/19 limited assurance areas to provide assurance that improvements have been implemented.	Q4 Jan – March 2020			

Governance and Audit Workplan to end of 2020 as at 6 January 2020

Purpose:
This report provides a summary of items coming to committee over the forthcoming year.

Recommendation:
1. That members note the report.

Date	Title	Lead Officer	Purpose of the report	Date First Published
10 MARCH 2020				
10 Mar 2020	Internal Audit Draft Annual Plan Report 2020/21	James Welbourn, Democratic and Civic Officer	To present to members the draft annual internal audit plan based on assurance mapping and risk assessments across the Council's critical services.	21 February 2019
10 Mar 2020	Accounts Closedown 2019/20 - Accounting Matters	Caroline Capon, Corporate Finance Team Leader	To review and approve the accounting policies actuary assumptions and materiality levels that will be used for the preparation of the 2018/19 accounts. For the External Auditor to explain the process of the External Audit of the Statement of Accounts and approach to the Value for Money Audit 2018/19.	10 June 2019
14 APRIL 2020				
14 Apr 2020	Internal Audit Charter	James Welbourn, Democratic and Civic Officer	IA Charter for 20/21 - John Sketchley	15 July 2019
14 Apr 2020	Internal Audit Q4 19/20	James Welbourn, Democratic and Civic Officer	To present the update for quarter 4 to G and A committee	21 February 2019

14 Apr 2020 (for Full Council 11 May 2020)	Annual Constitution Review	Katie Coughlan, Senior Democratic & Civic Officer	Annual review ahead of annual council in 2020	15 July 2019
16 JUNE 2020				
16 Jun 2020	Unaudited Statement of Accounts 2019/20	Caroline Capon, Corporate Finance Team Leader	Review of the Unaudited Statement of Accounts 2019/20	19 December 2019
16 Jun 2020	Internal Audit Annual Report 2019/20	James Welbourn, Democratic and Civic Officer	Annual Report from Assurance Lincolnshire	19 December 2019
16 Jun 2020	Unaudited Statement of Accounts	Caroline Capon, Corporate Finance Team Leader	Review of the Unaudited Statement of Accounts	19 December 2019
21 JULY 2020				
21 Jul 2020	Audited Statement of Accounts 2019/20	Caroline Capon, Corporate Finance Team Leader	To review and sign off the 2019/20 Statement of Accounts	19 December 2019
21 Jul 2020	EXTERNAL AUDIT REPORT - ISA 260	Tracey Bircumshaw, Strategic Finance and Business Support Manager	External Auditor, Mazars will present their ISA260 report relating to our Statement of Accounts 2018/19	10 June 2019
21 Jul 2020	Internal Audit Quart 1 2020/21	James Welbourn, Democratic and Civic Officer	Report from Assurance Lincolnshire	19 December 2019
13 OCTOBER 2020				
13 Oct 2020	Internal Audit Report Quarter 2 20/21	James Welbourn, Democratic and Civic Officer	From Assurance Lincolnshire	19 December 2019