

Guildhall Gainsborough
Lincolnshire DN21 2NA
Tel: 01427 676676 Fax: 01427 675170

AGENDA

This meeting will be streamed live at the below address and the video archive published on our website

Governance and Audit Committee
Tuesday, 12th January, 2021 at 2.00 pm
Virtual - MS Teams

<https://west-lindsey.public-i.tv/core/portal/home>

Members:

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

1. **Register of Attendance**
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 - 7)
Held on 13 October 2020.
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 8)
Matters Arising schedule setting out current position of previously agreed actions as at 4 January 2021.

Agendas, Reports and Minutes will be provided upon request in the following formats:

Large Clear Print: Braille: Audio: Native Language

6. Public Reports for Consideration

- i) Update on Governance and Audit Committee's Effectiveness Action Plan (PAGES 9 - 13)
- ii) Bi-Annual Review of Strategic Risks (PAGES 14 - 41)
- iii) Internal Audit Quarter 3 20/21 report (PAGES 42 - 61)
- iv) Draft Treasury Management Strategy 2020/21 (PAGES 62 - 128)

7. Workplan

(PAGES 129 - 130)

8. Exclusion of Public and Press

To resolve that under Section 100 (A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

9. Exempt Reports for Consideration

- i) Treasury Management Practices (PAGES 131 - 179)

Ian Knowles
Head of Paid Service
The Guildhall
Gainsborough

Monday, 4 January 2021

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Virtual - MS Teams on 13 October 2020 commencing at 2.00 pm.

Present: Councillor John McNeill (Chairman)

Councillor Stephen Bunney
Councillor Mrs Tracey Coulson
Councillor Mrs Caralyne Grimble
Councillor Mrs Angela White
Alison Adams
Andrew Morriss

In Attendance:

Alan Robinson	Director of Corporate Services and Monitoring Officer
Tracey Bircumshaw	Assistant Director of Finance and Property Services and Section 151 Officer
Rachael Grattrick	Assurance Lincolnshire
Natalie Kostiuik	Customer Experience Officer
James O'Shaughnessy	Corporate Policy Manager & Deputy Monitoring Officer
Stacey Richardson	Principal Auditor
Ele Snow	Democratic and Civic Officer
Katie Storr	Senior Democratic & Civic Officer
James Welbourn	Democratic and Civic Officer

Apologies: Councillor Mrs Jackie Brockway

33 PUBLIC PARTICIPATION PERIOD

There was no public participation.

34 MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 29 September 2020 were approved as a correct record.

35 MEMBERS DECLARATIONS OF INTEREST

There were no declarations of interests.

36 LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN (LGSCO) ANNUAL REVIEW LETTER 2019/20 REPORT

Members considered a report on the Local Government and Social Care Ombudsman (LGSCO) annual review letter for 2019/20. This review letter covered complaints referred, or

decided by the LGSCO in the period 2019/2020. Highlights included:

- There had been a decrease in the number of complaints compared to previous years, with 11 cases referred to the LGSCO in the period 2019/2020;
- 15 decisions had been taken by the LGSCO in total, meaning that 4 cases had been carried over from the period 2018/2019. 1 complaint had been upheld, which was in relation to an environmental protection noise complaint. A recommendation of a BS4142 noise assessment should be carried and payment be made to the complainant.

Following this introduction, Councillors asked questions of officers. Further information was provided:

- Although the overall look of the report was pleasing, there were only a limited number of complaints upheld across Council services so it was difficult to produce meaningful analysis;
- Some complaints did not go to the LGSCO and had different routes to a solution. For instance, if a parish council took a complaint to the LGSCO, they would not investigate. Another example would be where a complaint was investigated, but no injustices were found – this would be taken no further.

Different disputes at parish council level may go through the courts system or the standards process;

- The LGSCO set an average target of 6 months to resolve complaints, but some can take longer than this, depending on the complexity of the complaint. There had been examples of complaints taking many years to resolve.

The report was duly moved and seconded, and following a vote it was unanimously **RESOLVED** to:

- (1) Agree that the content of the report regarding the Local Government and Social Care Ombudsman Annual Review Letter had been satisfactorily scrutinised;
- (2) Be assured that complaint handling procedures were functioning adequately.

37 AMENDMENT TO SECTION 13A POLICY RESULTING IN REQUEST FOR CONSTITUTION TO BE AMEND

Members considered an amendment to the Council Tax Discretionary Hardship (Section 13a) Policy, which if approved would lead to a request for constitutional change.

The report was moved, seconded, and following a vote it was unanimously **RESOLVED** to **RECOMMEND TO FULL COUNCIL** that the Constitution be amended as follows:

Section and Page Reference	Change required
page 23 of Part IV of the Constitution – Responsibility for	The following be DELETED

Functions – Appeals Board	“5. To hear appeals against decisions not to award Section 13 A Council Tax Discretionary Relief”
page 28/29 of Part IV of the Constitution – Responsibility for Functions – Chief Executive	The following be ADDED “to determine any appeal made against a decision to not award Section 13 A Council Tax Discretionary Relief. Limits on Delegation: - following Consultation with the Leader of the Council” .

38 MEMBER DEVELOPMENT ANNUAL REPORT

Members considered a review of Member development for the previous civic year. The Democratic and Civic Officer introduced the report and highlighted the following points:

- Member development sessions have had to be cancelled due to the Covid 19 pandemic. Virtual options to deliver training had been explored as an alternative;
- ‘Chairing Skills’ had been the title of the first workshop; feedback was still being received, but so far those that had responded were very satisfied. There had been some suggestions of improvements, but overall the training was recommended for other Members.

Members then asked questions of officers and also provided comment – further information was provided:

- Roleplaying for chairing meetings could be useful to Members. This could include challenging situations and how to deal with them;
- There were particular accounting methods used in local government – it would be useful to have a short guide to these;
- Support from the political groups would be appreciated as officers cannot mandate Members to attend training;
- One way of engaging more Members may be to lay on a single face to face meeting via video, whilst asking them if there was any particular member development they were interested in;
- Snippets of meetings that had gone well, or had even gone badly would be useful as training materials;
- It can be awkward for an officer to ask Members what their strengths and weaknesses were, however this was easier at the start of a Member’s term of office.

Giving training to those more senior Members could be something to be looked at by the Member Development Group;

- Need to bear in mind those that have outside commitments when arranging training. The training needed to be a mixture of face to face, and online in the future;
- Ongoing training would be helpful to Members. There can be a lot of training within the first few weeks of becoming a Councillor, but to some it felt like the training sessions were fewer in number further into the 4 year cycle.

RESOLVED to:

- (1) Accept this report as an accurate reflection of Member Development for 2019/20 and 2020/21 to date; and
- (2) Note the suggestions for future development opportunities, to be considered by the Member Development Group.

39 INTERNAL AUDIT REPORT QUARTER 2 20/21

Members considered a quarterly update from Assurance Lincolnshire, internal auditors for West Lindsey District Council.

At the time the report was published, there was one report at draft stage, in respect of cyber security. The final report on this would be due in the third quarter of 2020/2021. At present, there were four audits in progress.

The profile target had been adjusted to reflect that work would be completed in three quarters of the year rather than four.

There were no outstanding audit actions.

Members then provided comment on the report and asked questions of officers. Further information was provided:

- The follow up to the Food Safety, Environmental Protection and Enforcement audit was given high assurance;
- If an audit was at 'field work' stage, this would mean that it was a work in progress;
- The ICT Cyber Security audit was at draft report stage because it was going through an approval process. As it was a joint audit with North Kesteven, approval would be sought from both councils.

The report was moved, seconded, and following a vote it was unanimously **RESOLVED** to agree the content of the report.

40 WORKPLAN

The workplan was noted.

The meeting concluded at 3.07 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
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Status	Title	Action Required	Comments	Due Date	Allocated To
Black	Statement of Accounts Sign off	The Chairman requested that this be added to the main committee agenda as sign off has now been received.	This was emailed to all Governance and Audit Members on 24 November 2020, along with a follow up letter.	12/01/21	Tracey Bircumshaw



**Governance and Audit
Committee**

Tuesday, 12 January 2021

**Subject: Update on the Governance and Audit Committee's
Effectiveness Action Plan**

Report by:

Director of Corporate Services and Monitoring
Officer

Contact Officer:

Corporate Policy Manager & Deputy Monitoring
Officer

Purpose / Summary:

To present to the Committee the action plan
drawn up to address areas for improvement
following the self-evaluation exercise which the
Committee undertook

RECOMMENDATION(S): That committee Members:

1. Review and approve the Action Plan;
2. Be assured that the Action Plan will adequately address the identified areas for improvement.
3. Request that progress on the Action Plan be reported back to the Committee in July 2021.

IMPLICATIONS

Legal: None

Financial :

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 :

[July 20 - Committee Effectiveness Survey Results](#)

Risk Assessment : 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

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1 Introduction

- 1.1 In March 2020, Members of the Governance & Audit Committee completed a survey to establish the effectiveness of the Committee. This was based on advice offered by the Chartered Institute of Public Finance and Accountancy (CIPFA) (2018) suggesting that it is useful for audit committees to undertake a self-assessment of its effectiveness, the results of which would help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.
- 1.2 The findings were analysed and were presented back to the Committee in July. A number of areas were identified as being in need of attention and the Committee agreed to the formation of a working group to further review the findings and devise an improvement plan which the Committee will oversee.
- 1.3 The Working Group, consisting of four members of the Committee and working to an agreed terms of reference, have met and devised the action plan set out in Appendix One.
- 1.4 Members of the Committee are recommended to:
 - Review and approve the action plan.
 - Be assured that it will adequately address the identified areas for improvement.
 - Request that progress on the action plan be reported back to the Committee in July 2021.

Appendix One: Governance & Audit Committee Effectiveness Action Plan

Issue	Action	When?	By Who?
Ensure the purpose of the Committee is understood by all members	Review the Committee's Terms of Reference at the first meeting of each civic year	Annually	Committee Chair
Quality and content of lengthy/technical reports	At Chair's Brief determine whether, in the opinion of the Chair/Vice Chair, any reports that do not already include an executive summary require one.	On-going	Lead Officer/Report Authors/Chair/Vice Chair
Improve the financial literacy of Committee members	Provide 'bite-size' financial training packages for members on an annual basis, including how to read accounts/financial statements.	Annually	Finance Team Manager Democratic Service Officers
Ensure that the interests and experiences of Committee members broadly reflect the Committee's subject matter and that any gaps are filled where possible	1. Annually appraise the interests and experience of Committee members and match against those required for the Committee to be fully effective. 2. When recruiting Independent Members, highlight the skills/experience required.	1. On appointment of new members 2. Annual review 3. When recruiting Independent Members	The Chairman of the Committee and Chief Officers. Committee memberships are considered at Annual Council.
Improve the level of scrutiny and assurance seeking among members	Pre-committee meetings to take place between Chair/Vice Chair and Committee members to discuss the content of reports and identify any pertinent questions or matters to raise at the Committee	On-going	Chair/Vice Chair and Committee members

Agenda Item 6b



**Governance and Audit
Committee**

Tuesday 12 January 2021

Subject: Bi-Annual Review of Strategic Risks (Jan 2021)

Report by:

Director of Corporate Services and Monitoring
Officer

Contact Officer:

Corporate Policy & Governance Manager &
Deputy Monitoring Officer

Purpose / Summary:

To present to the Committee for review, the
strategic risks facing the Council as at January
2021

Recommendations: Members are asked to:

1. Consider the report and identify any additional risks of a strategic nature;
2. Be assured that current risk management controls and proposed actions are sufficiently robust.

IMPLICATIONS

Legal: None

Financial: FIN/117/21/TJB

Staffing: While this report considers the risks and implications of certain matters it does not in itself carry any staffing related implications.

Equality and Diversity including Human Rights: While this report considers the risks and implications of certain matters it does not in itself carry any equality and diversity related implications.

Data Protection Implications: While this report considers the risks and implications of certain matters it does not in itself carry any data protection related implications.

Climate Related Risks and Opportunities: While this report considers the risks and implications of certain matters it does not in itself carry any climate related implications.

Section 17 Crime and Disorder Considerations: While this report considers the risks and implications of certain matters it does not in itself carry any crime and disorder related implications.

Health Implications: While this report considers the risks and implications of certain matters it does not in itself carry any health related implications.

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

Risk Assessment: 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

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1 Introduction

- 1.1 Strategic risks are considered as being those faced by the Council that, if materialised, would adversely impact the delivery of corporate priorities.
- 1.2 This approach reflects the guidance provided by the Association of Local Authority Risk Managers (ALARM). This body advocates that strategic risks should focus on the long-term objectives of the organisation, which can be affected by areas such as financial concerns, political risks, legal and regulatory changes and changes in the physical environment.
- 1.3 The Governance and Audit Committee review the strategic risks on a six-monthly basis.

2 Monitoring Arrangements

- 2.1 The strategic risks are presented to the Council's Management Team on a quarterly basis for review.
- 2.2 The Management Team are requested to review the risks, control measures and future actions to ensure that they remain sufficiently robust to mitigate the identified risks.
- 2.3 Where corrective action is required and/or additional risks are identified, the strategic risk register is updated accordingly.
- 2.4 Due to structural changes at management level, new risk owners have been assigned across the strategic risk portfolio.
- 2.5 During their reviews of the strategic risk register, no additional strategic risks have been identified by the Management Team to those last presented to the Committee. The strategic risks are presented in Appendix One.

3 Risk Matrix

- 3.1 To determine the potential severity of risks, the relationship between the **likelihood** of a risk materialising and its potential **impact** on the Council is explored with each factor assessed against a 1-4 scoring criteria. The following guidance is available to determine which scoring should be applied to an individual risk:

You should assign a number in the range 1-4 as follows:	
Likelihood: 1 = Hardly Ever (<5%) 2= Possible (5-35%) 3= Probable (35-75%) 4= Almost Certain (>75%)	
1 = Negligible Impact: <ul style="list-style-type: none">• Minor service disruption	2 = Minor Impact <ul style="list-style-type: none">• Service disruption

<ul style="list-style-type: none"> • Minor Injury • Financial loss < £250k • Isolated complaints 	<ul style="list-style-type: none"> • Loss time injury • Financial loss >£250k - £500k • Adverse local media coverage • Failure to achieve a service plan objective
3 = Major Impact <ul style="list-style-type: none"> • Significant service disruption • Major/disabling injury • Financial loss >£500k - £1m • Adverse national media coverage • Failure to achieve Corporate Plan objective 	4 = Critical <ul style="list-style-type: none"> • Total service loss for a significant period • Fatality to employee, service user or other • Financial loss >£1m • Ministerial intervention in running service

3.2 Using this methodology enables each risk to be categorised as either low, medium or high in nature (see table below) and prioritisation as regards mitigations can be applied. For example a risk deemed to be probable in likelihood (3) that would have a minor impact on the Council (2) would receive an overall score of 6 and be rated as medium in nature.

Impact	Critical	4	8	12	16
	Major	3	6	9	12
	Minor	2	4	6	8
	Negligible	1	2	3	4
Likelihood		Hardly Ever	Possible	Probable	Almost Certain

3.3 Using the methodology, the Council's Risk Strategy (2019-2023) sets out the requirement for risk owners to score the current (inherent) risk and the target (residual) risk once mitigations have been applied.

4. Points to Note

4.1 Covid19 - the pandemic has been a major disruptive force on the operations of the Council over the last nine months. Its impact has been felt across most, if not all Council operations, both front-facing and internal.

4.2 To reflect this, the impact of and response to the pandemic has been distributed across all relevant risks, as opposed to adding Covid19 as a separate individual risk entry. In fact, as the pandemic and its effects are currently very real, it has been treated as an issue rather than a risk. Consequently, the mitigating actions implemented across the Council to

minimise or cope with the impact of the pandemic, are highlighted throughout the register.

4.3 Brexit – a dis-proportionate reference has not been made of Brexit and its potential impact on the Council as it turns into 2021. At present, any anticipated direct and immediate impact on the Council has been identified as potentially affecting how the Council anticipates it will deal with:

- Emergency events i.e. the impact on the District of any overspill caused by haulage hold-ups at Humber ports;
- Data handling and the storage and processing of data on the part of suppliers hosting our data in the EU;
- Keeping a watching brief on any potential procurement related matters.

Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
Description of Strategic Risk: Inability to set a sustainable balanced budget					
<p>1. Commercial ventures do not realise expected financial gains.</p> <p>2. Government funding arrangements do not match estimates used in financial modelling.</p> <p>3. Outcomes of: Business Rates Review; Fairer Funding Review; Comprehensive Spending Review; expected savings, efficiency or income initiatives do not deliver expected benefits.</p> <p>4. Cessation of grant/match-funding streams.</p> <p>5. Growth forecasts for District are not realised.</p> <p>6. Unanticipated rise in demand for services.</p> <p>7. Invest Gainsborough does not deliver.</p> <p>8. Schemes for other market towns do not materialise.</p> <p>9. Business planning is not robust.</p>	<p>1. Case for Gainsborough is not made (Place make).</p> <p>2. Cuts or reductions in services.</p> <p>3. Staff redundancies.</p> <p>4. Inability to deliver Corporate Plan priorities.</p> <p>5. Growth of the District stagnates.</p> <p>6. Reputational damage.</p>	<p>1. MTFP in place.</p> <p>2. Successful commercial trading and investment programme.</p> <p>3. Annual business planning.</p> <p>4. Regular budget monitoring.</p> <p>5. Identification and use of grant-funding opportunities.</p> <p>6. Value for Money Strategy adopted.</p> <p>7. Lobbying strategy.</p> <p>8. Regular review of the commercial property portfolio.</p> <p>9. Volatility and risk reserves maintained.</p> <p>10. Resilience indicators developed and monitored.</p> <p>11. Working Balance minimum set at £2.5m</p> <p>12. Commercial risk indicators set</p>	2	4	<p>Current Score: 8</p> <p>Target Score: 8</p>
<p>Commentary: Close monitoring of the current spending profile; good performance mgt and benchmarking coupled with progressive service planning will support the minimisation of this risk. Peer Review findings: .. "sound financial management, robust control and successful implementation of commercial plan." Impact of Covid19 on MTFP assessed and understood</p>					

10. Ongoing financial impacts of Covid-19				
Actions for Improvement		Completion Date	Officer	Next Risk Review Date
				31/10/2021

Risk Ref: Our Council		Risk Owner: Ady Selby		Date: 09/12/2020	
Description of Strategic Risk: The quality of services do not meet customer expectations					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
<ol style="list-style-type: none"> 1. Poorly trained staff. 2. Systems and processes do not adequately support service delivery. 3. Resources available do not match demands on services. 4. Higher than expected customer expectations. 5. Insufficient attention paid to customer feedback. 	<ol style="list-style-type: none"> 1. Rise in number of complaints. 2. Reputational damage. 3. Financial loss – compensation costs and income reductions. 4. Reduction in market share of traded services. 5. Ineffective support for vulnerable customers. 	<ol style="list-style-type: none"> 1. Procedure in place to receive customer feedback; including complaints. 2. Customer Experience Officer appointed. 3. Training and development plans for officers. 4. Performance measures in place/monitored and reported. 5. T24 Programme in development. 6. Service redesigns underway. 7. New Customer Relationship Management (CRM) technology being implemented 8 Robust performance mgt in place 9. Benchmarking processes in place. 10. Dedicated corporate training budget 	2	3	Current Score: 6
					Target Score: 4
<p>Commentary: The T24 programme is designed to put the customer at the centre of every service and will help to mitigate this risk. Technology led service reviews in all service areas will address resilience and capacity issues</p>					

Actions for Improvement	Completion Date	Officer	Next Risk Review Date
Implement CRM and ERP systems	31/12/2021	Alan Robinson	30/06/2021
Continual development of P&D reporting	31/12/2021	Ady Selby	

Risk Ref: Our Council		Risk Owner: Alan Robinson		Date: 09/12/2020	
Description of Strategic Risk: Inability for the Council's governance to support quality decision making					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
1. Ineffective governance framework. 2. Poorly trained Members. 3. Out of date Council Constitution. 4. Ambiguity around the ambitions of the Council	1. Inefficient use of resources. 2. Reputational loss. 3. Rise in no. of Standard Complaints. 4. Judicial Reviews. 5. Delay in delivery/cancellation of key Council projects. 6. Poor rating from Internal/External for governance arrangements. 7. Poor Staff/Member working relationships and low morale. 8. Loss of opportunities.	1. Member training and development programme in place. 2. Member/Officer protocols established. 3. Annual review of the Council's Constitution. 4. Members' Code of Conduct in place. 5. Robust corporate governance framework. 6. Annual schedule of audits and internal/external audit oversight. 7. Corporate Plan 2019-2023 approved. 8. Programme Boards operating to oversee project development. 9. Annual Governance Statement produced.	2	3	Current Score: 6
					Target Score: 6
			Commentary: Ensuring that all decisions are evidenced based and robust governance will continue to minimise the likelihood of this risk. Peer Review findings noted that corporate governance and Member/Officer relations were effective. High assurance received from internal audit on the Good Governance Follow up audits All actions from the initial good governance audit completed. G&A Cttee have undertaken an effectiveness survey.		
Actions for Improvement		Completion Date	Officer		Next Risk Review Date

G&A Cttee to work on action plan following survey	31/03/2021	Alan Robinson	30/06/2021
Review of report writing with a focus on recommendations to be completed	31/01/2021	Alan Robinson	

Risk Ref: Our People	Risk Owner: Diane Krochmal	Date: 09/12/2020			
Description of Strategic Risk: Inability to raise local educational attainment and skills levels					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
<ol style="list-style-type: none"> 1. Poor teaching standards. 2. Lack of stability within schools. 3. Lack of appropriate role-modelling to raise aspirations. 4. Insufficient out-of-school support or mentoring. 5. Failure to address issues relating to Gainsborough in particular. 	<ol style="list-style-type: none"> 1. Adverse effect on the career/further education opportunities of young people. 2. Inability of local job market to meet recruitment needs of employers. 3. Wage profile of the economy does not rise. 4. Poorer life chances for young people. 5. Increased welfare dependency and rise in vulnerable groups. 6. Viability of education and skills providers threatened. 	<ol style="list-style-type: none"> 1. Made in Gainsborough apprenticeship scheme established 2. West Lindsey Employment & Skills Partnership operating in line with approved strategy and delivery plan. 3. Supporting work experience for young people 	3	3	Current Score: 9
					Target Score: 9
					<p>Commentary: On-going work on the part of the WLESP is a major contributory factor. Keeping abreast of skills and employment initiatives launched on the back of Covid19 and the Green Recovery. Awaiting results of audit into this area of work.</p>
Actions for Improvement		Completion Date	Officer	Next Risk Review Date	
Measure effectiveness of existing actions and draw learning		28/02/2021	Amanda Bouttell	31/03/2021	
Deliver against West Lindsey Employment & Skills Strategy and Delivery Plan.		28/02/2021	Amanda Bouttell		

Development of redundancy support programme to form part of WLESP delivery plan	01/12/2021	Amanda Bouttell	
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Risk Ref: Our People	Risk Owner: Diane Krochmal	Date: 09/12/2020			
Description of Strategic Risk: Inadequate support is provided for vulnerable groups and communities					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
1. Lack of strategic focus on relevant matters with LCC. 2. Inability to identify and reach vulnerable groups. 3. Insufficient/inaccurate data analysis to establish need. 4. Lack of engagement with and from vulnerable groups.	1. Cycle of dependency is perpetuated. 2. Demand pressures on services and resources. 3. Rural Isolation and increase in rural poverty. 4. Increased demand on formal/informal support networks. 5. Inability of communities to reach self-sufficiency.	1. Innovation re service provision 2. Selective licensing scheme operating 3. Focused support for residents of Hemswell Cliff and Scampton Action Group established 4. Data research and analysis expertise in place. 5. Safeguarding policies and procedures operating. 6. Wide-range of enforcement tools. 7. Effective multi-agency partnership working. 8. New Communities at Risk Strategy in place 9. Recent audit actions completed/underway 10. Housing Board have oversight 11. Contextual Safeguarding principles in operation	3	3	Current Score: 9
					Target Score: 6
					Commentary: Audit report completed and actions completion in progress. Further development of Alchemy partnership initiative with funding awarded - major links to health and wellbeing.

Actions for Improvement	Completion Date	Officer	Next Risk Review Date
P3 project to launch to assist vulnerable communities and also improve local housing stock	30/07/2021	Diane Krochmal	31/03/2021

Risk Ref: Our People	Risk Owner: Diane Krochmal	Date: 09/12/2020			
Description of Strategic Risk: Health and wellbeing of the District's residents does not improve.					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
1. Failure of leisure contract 2. Outreach service is ineffective 3. Wellbeing service does not achieve outcomes	1. Increased burden on frontline services 2. Reduced life expectancy and health for residents 3. Less economically active residents 4. Adverse economic impact on district 5. Council Tax support costs increase 6. Potential impact on the on-going viability of leisure services	1. Leisure Contract monitoring 2. Wellbeing service in place with clear objectives. 3. WLDC Wellbeing Lincs Management Board representation 4. Active membership of County Wide Health Scrutiny Panel 5. West Lindsey representation on Housing, Health and Care delivery group	3	3	Current Score: 9
					Target Score: 6
			Commentary: Work is underway to develop a homes and communities strategy to address wellbeing and health inequalities. Homes and Communities Assistant Director is in place. Responsibility for the success of the leisure contract lies with AR/AS.		
Actions for Improvement		Completion Date	Officer		Next Risk Review Date
To implement a new business area for Homes and Communities and recruit to the required structure.		30/06/2021	Diane Krochmal		30/06/2021
Review the need for a Strategic Health Partnership.		31/12/2021	Diane Krochmal		

Risk Ref: Our Place	Risk Owner: Ady Selby	Date: 09/12/2020			
Description of Strategic Risk: Insufficient action taken to create a cleaner and safer district					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
<ol style="list-style-type: none"> 1. Lack of robust enforcement policies. 2. Lack of capacity to respond effectively to service demand. 3. Ineffective messages about social responsibility. 4. Ineffective partnership working arrangements. 5. Inability to effectively implement new legislation. 6. Unexpected outbreak of environmental or health related issue. 	<ol style="list-style-type: none"> 1. Residents of the District feel unsafe. 2. Rise in number of crime and enforcement related incidents. 3. Reputational damage. 4. Increase in no. of complaints. 5. Increased threat of illness/harm to residents. 6. Adverse effect on natural wildlife habitats and bio-diversity. 7. Demand pressures on front-line services. 	<ol style="list-style-type: none"> 1. Award winning Waste Collection and Street Cleaning Service. 2. Trade Waste service provided. 3. Enforcement policies operating to oversee all relevant areas. 4. CCTV operations in place. 5. Press/media coverage of successful prosecutions and enforcement cases. 6. Adequate officer capacity deployed to cover enforcement matters. 7. Educating school children in recycling and sustainability. 8 Covid19 protocols in place and adhered to and key messages communicated across the District 	2	3	Current Score: 6
					Target Score: 4
			<p>Commentary: Plans for a single depot will support the continuing success of the waste service. Council agreement to fund work with schools to promote environmental and sustainability issues. Enforcement and environment teams now fully resourced. Member Working Group established to produce an Environment and Sustainability Strategy. All guidance relating to Covid19 implemented.</p>		
Actions for Improvement		Completion Date	Officer		Next Risk Review Date

Produce Environment and Sustainability Strategy	31/05/2021	James O'Shaughnessy	31/05/2021
Build and opening of new waste depot	01/01/2022	Ady Selby	
Implement schools educational programme re recycling etc	01/11/2022	Steve Leary	

Risk Ref: Our Place	Risk Owner: Diane Krochmal	Date: 09/12/2020			
Description of Strategic Risk: The local housing market and the Council's housing related services do not meet demand					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
<ol style="list-style-type: none"> 1. Housing developers do not build in the District. 2. Lack of suitable development land. 3. Lack of intelligence on housing need/demand. 4. New properties do not match need/demand of local housing market. 5. Existing housing stock is in poor condition. 6. Empty properties not brought back into use. 7. Lack of Council strategic direction and understanding of statutory functions and associated tasks. 	<ol style="list-style-type: none"> 1. Deterioration in condition of existing housing stock. 2. Increase in number of empty properties. 3. Increased homelessness and overcrowding. 4. Increase in numbers of vulnerable residents. 5. Increased pressure on housing services. 6. Lack of growth across District. 	<ol style="list-style-type: none"> 1. CLLP in place and review underway. 2. Housing Strategy approved. 3. New IT system operating in Home Choices service. 4. Development Partner appointed. 5. Selective Licensing Scheme implemented. 6. Housing & environmental health enforcement action taken. 7. Housing Assistance (financial) Policy. 8. Viable housing solution in development 	3	3	Current Score: 9
					Target Score: 6
<p>Commentary: Housing Strategy enablers to mitigate against the risk.</p>					
Actions for Improvement		Completion Date	Officer	Next Risk Review Date	
Review the need for strategic capacity within the service		30/06/2021	Diane Krochmal	30/06/2021	
Development of a Homes and Community Strategy		31/12/2021	Diane Krochmal		

Risk Ref: Our Place	Risk Owner: Sally Grindrod-Smith	Date: 09/12/2020			
Description of Strategic Risk: The local economy does not grow sufficiently					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
1. Slow take-up of strategic employment land. 2. Ineffective marketing of the District to attract inward investment. 3. Loss of a major employer(s) 4. Workforce skills do not match needs of employers. 5. Impact of Covid19 and lockdown on local economy	1. GVA does not grow. 2. Adverse effect on new job creation and upskilling of workforce. 3. Migration of skilled/educated workers out of the District. 4. Impinges on population growth ambitions. 5. Closure of businesses across the District	1. NNDR Policy established. 2. EIA impact assessments undertaken. 3. On-going promotion via Invest Gainsborough and Discover Gainsborough brands. 4. Made in Gainsborough apprenticeship scheme in place. 5. Development Partner appointed. 6. Efficient promotion and delivery of grant aid to businesses across the District 7. Launch of Townscape Heritage Initiative	3	3	Current Score: 9
					Target Score: 6
Commentary: The Council must influence the shape of key regional strategies and the workings of the GLLEP to ensure the District's growth ambitions and needs are fully reflected. The Council has distributed over £17m grant aid to businesses across the District. Townscape Heritage Initiative launched - £1.96m. Plans for new cinema approved.					
Actions for Improvement		Completion Date	Officer		Next Risk Review Date
Planning for Growth initiative with Greater Lincs		31/07/2021	Sally Grindrod-Smith		31/03/2021

Review of planning policies in general and the review of the Local Plan in particular	30/06/2021	Sally Grindrod-Smith	
Maintain watching brief on further support for businesses and ensure capacity in place to deliver effectively	30/06/2021	Sally Grindrod-Smith	

Risk Ref: Overarching Risk	Risk Owner: Alan Robinson	Date: 09/12/2020			
Description of Strategic Risk: ICT Security and Information Governance arrangements are ineffective					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
<ol style="list-style-type: none"> 1. Significant data breach or loss of data. 2. Successful cyber security incident. 3. Lack of staff awareness or training. 4. Inadequate infrastructure or ICT security arrangements. 5. Lack of or inadequate policies and guidance 6. Contracts/sharing agreements with data processors/controllers that do not ensure clauses allowing movement of data to a third country. 	<ol style="list-style-type: none"> 1. Significant adverse impact on service delivery. 2. Financial loss/fines imposed by ICO. 3. Potential ransom demands for release of data. 4. Reputational damage. 5. Loss of personal and business related data. 	<ol style="list-style-type: none"> 1. Robust ICT security systems in place. 2. PSN accreditation. 3. Up to date infrastructure and back-up arrangements. 4. Business continuity arrangements established. 5. Relevant policies covering ICT usage and information security. 6. Data Protection Officer and Senior Information Risk Owner roles in place. 7. On-going training and awareness for staff; re-inforced as a result of Covid19 and home working arrangements 8. Process in place for the reporting and investigation of data breaches and learning loop applied. 9. PCIDSS compliance 	3	4	Current Score: 12
					Target Score: 8
<p>Commentary: Continuous monitoring of officer training and promotion of incident reporting will further mitigate against this risk. The role of Senior Information Risk Owner has been reallocated to the Director of Corporate Services. SIRO attended SIRO training in October 2020. Recent cyber-security audit gave substantial assurance. In present circumstances the need for extra vigilance is regularly relayed to staff. Brexit arrangements may impact upon the Council's ability to access data of data processors/controllers that are storing data in the EU. Standard contractual clauses are being inserted into all relevant contracts and agreements. Awaiting EU confirmation of adequacy on the part of UK to meet EU GDPR standards.</p>					

		<p>10. Rolling programme of audits</p> <p>11. Ensuring standard contractual clauses are in place with data processors/controllers who hold data outside of UK.</p> <p>12. Insurance in place to cover costs of recovery from ICT failure/cyber attack.</p>		
Actions for Improvement		Completion Date	Officer	Next Risk Review Date
Deliver against 10 year infrastructure development plan		31/03/2021	Cliff Dean	31/03/2021
Ensure the timely implementation of the succession plan for the Data Protection officer and ensure sufficient support is provided to the new incumbent.		28/02/2021	James O'Shaughnessy	

Risk Ref: Overarching Risk	Risk Owner: Alan Robinson	Date: 09/12/2020			
Description of Strategic Risk: Failure to comply with legislation including Health and Safety matters					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
<ol style="list-style-type: none"> 1. Breach of legislation. 2. Failure to seek or follow legal advice. 3. Complaint from external organisation or member of public. 4. Whistleblowing report. 5. Increase of reportable incidents in specific work areas or activities. 6. Increase of insurance claims. 7. Accidents not reported or investigated. 8. Increase absence rates or other work related absences. 9. Non-compliance with primary legislation or Council policies. 10. Project work not planned effectively to control H&S risk. 11. Managers and employees not effectively trained in H&S matters. 	<ol style="list-style-type: none"> 1. Reputational damage. 2. Financial loss. 3. Judicial Review. 4. Prosecution for H&S related incidents. 5. Employees injured through work activity. 6. Increased insurance claims and insurance premiums. 7. Member of public, contractor or employee killed at work, possible corporate manslaughter action. 8. Staff sickness rates increase due to lack of compliance with good H&S practice. 9. Increased employer/employee litigation through inconsistent approach to managing H&S in the workplace. 10. Unable to defend H&S claims or disputes. 	<ol style="list-style-type: none"> 1. Corporate H&S Officer in place. 2. H&S Champions across the Council. 3. General H&S training provided. Service specific H&S training and safe working procedures including lone working. 4. H&S incident reporting arrangements. 5. Service level H&S risk assessments undertaken and regular H&S walks undertaken to identify hazards. 6. Reporting to Mgt Team/JSCC on H&S incidents. 7. Regular H&S and stress mgt training for all staff. 8. Council subscription to Employee Assistance Programme for staff. 9. Regular inspections of property, including car parks. Pro- 	2	4	Current Score: 8
					Target Score: 8
<p>Commentary: The move to a new operational depot has been agreed and it is planned to be in place by the summer of 2021. This will create a safer working environment for staff.</p>					

<p>12. Absence of robust H&S monitoring and recording system.</p> <p>13. Fire Risk Assessments not current and reviewed by Managers</p>		<p>active maintenance programme.</p> <p>10. Early resolution of reported defects.</p> <p>11. Public Liability and Employers Liability insurance in place.</p> <p>12. Legislative implications included on all reports.</p> <p>13. Compliance with current legislation and best practice.</p> <p>14. Membership and use of Legal Services Lincolnshire.</p> <p>15. Senior Information Risk Owner in place</p>		
Actions for Improvement		Completion Date	Officer	Next Risk Review Date
Approve & deliver new Waste Services depot to provide safer working environment		31/12/2022	Ady Selby	30/06/2021

Risk Ref: Overarching Risk	Risk Owner: Ady Selby	Date: 09/12/2020			
Description of Strategic Risk: Inability to maintain critical services and deal with emergency events					
Trigger	Impact	Current Controls	Likelihood	Impact	Risk Score
<ol style="list-style-type: none"> 1. Loss/failure of critical systems. 2. Inadequate response to incident or emergency. 3. Lack of, or ineffective, partnership working. 4. Lack of emergency planning or disaster recovery arrangements. 5. Ineffective communication arrangements. 6. Inadequate response to Brexit related issues 	<ol style="list-style-type: none"> 1. Inability to deliver critical/key services. 2. Increased risk of harm to vulnerable customers. 3. Financial loss. 4. Reputational damage. 	<ol style="list-style-type: none"> 1. Robust infrastructure and back-up arrangements. 2. Package of information security incident policies and procedures. 3. IT Disaster Recovery Plan. 4. Robust emergency planning in place 5. Regular review of business continuity arrangements. 6. Membership of LRF Partnership. 7. Regular training for Strategic and Tactical Commanders 8. Plans in place and tested regularly 9. Training for out of hours officers and those attending SCG and TCG 	2	4	Current Score: 8
					Target Score: 8
					<p>Commentary: Effective business continuity and emergency planning responses are in place. Frequent testing will be a key priority.</p>
Actions for Improvement		Completion Date	Officer		Next Risk Review Date

Refresher training for appropriate officers	31/03/2021	Ady Selby	30/06/2021
Ensure effective handover to new LRF adviser	31/12/2022	Ady Selby	

Agenda Item 6c



**Governance & Audit
Committee**

12 January 2021

Subject: Draft Internal Audit Quarter 3 Progress Report 2020/21

Report by: Lucy Pledge (Head of Service – Corporate Audit & Risk Management – Lincolnshire County Council)

Contact Officer: Alan Robinson, Director of Corporate Services
Alan.robinson@west-lindsey.gov.uk

Purpose / Summary: The report gives members an update of progress, by the Audit partner, against the 2020/21 annual programmes agreed by the Audit Committee in March 2020.

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

Key Decision:

Yes

No

Internal Audit DRAFT Progress Report



Image Courtesy of the Official UK Plaza Club

West Lindsey District Council December 2020

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- Guide for Audit and Risk Committees on financial reporting and management during COVID-19
- Redmond review
- Internal Audit in Lockdown - The impact of the coronavirus pandemic on internal audit teams in the UK and Ireland

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- 2 - Details of Overdue Actions
- 3 - Internal Audit Plan 2020/21 – Progress to Date
- 4 – Record of changes to the Internal Audit plan

Lucy Pledge - Head of Internal Audit & Risk Management

lucy.pledge@lincolnshire.gov.uk

Emma Bee – Audit Manager

Emma.Bee@lincolnshire.gov.uk

Stacey Richardson – Principal Auditor

Stacey.Richardson@lincolnshire.gov.uk

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 brought 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 2020 to November 2020
- Advise on progress of the 2019/20 and 2020/21 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have issued two reports and we have four audits at draft report stage.

Two new audit areas have been included within the audit plan, utilising the previously deferred audit time:

- Covid 19 related Business Grants
- Together 24

We would like to bring to Members attention a number of guides and reports that have recently been produced including:

- Risk focus for 20/21
- Covid-19 Guide for Audit & Risk Committees
- Redmond review
- Guide for Audit and Risk Committees on financial reporting and management during COVID-19

These guides set out some key areas of focus and areas where Members may wish to seek assurance. A summary of each report/guide can be found within the 'Other Matters of Interest' section of this report.

Work completed

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

Assurances

- Treasury Management – High Assurance
- ICT Cyber Security – Substantial Assurance (Joint review across West Lindsey & North Kesteven District Councils)



High Assurance

Our review of the effectiveness and efficiency of the controls in place across Treasury Management has provided a High Assurance opinion.

This audit has been carried out at a time when the Council had introduced alternative working arrangements as a result of the Coronavirus pandemic. Staff have been working from home and have continued their working practices to ensure controls in place remain appropriate and transactions are suitably authorised and follow the Council's Treasury Management procedures. Through discussion and testing we did not identify any areas of concern.

At the beginning of April 2020 the Council received significant amounts of funding from the Government to be passed on as Covid 19 related Business Grants. As a result a large amount of cash had to remain in liquid investments. Action was taken in advance by the Treasury Management Team via delegated decision to increase the Council bank account limits and short term investments limits to maintain liquidity.

During our review we confirmed that:

- Current Treasury Management Strategy was approved in line with the constitution at Full Council
- Borrowing and investments follow both the prudential and treasury indicators detailed in the Budget Book and operational guidance in the Treasury Management Procedures
- Treasury Management procedures and indicators such as counterparty lists, bank account limits and investment limits are embedded within the daily authorisation process
- Independent authorisation of daily Treasury Management requirements and Money Market investment is in place
- Monthly benchmarking is in place that provides oversight to the Treasury Manager on how the Council is performing against 10 other Local Authorities
- Records enable performance reporting such as investment earnings rates as part of the in year and end of year Treasury Management Report to Governance and Audit Committee and Full Council. This is in line with the constitution

Treasury Management

Substantial Assurance

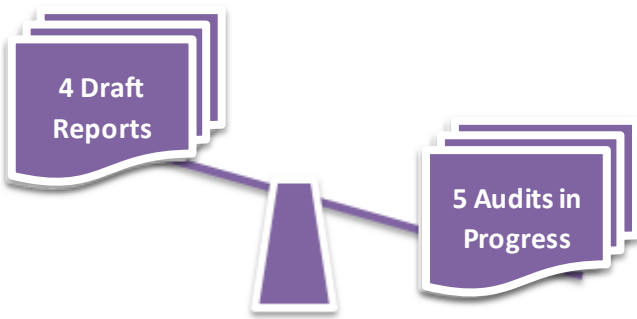
In undertaking this review of Cyber Security we have considered the 12 key areas highlighted by the National Cyber Security Centre (NCSC) and National Audit Office (NAO) as being relevant to Cyber Security and completed a high level review of each one.

Overall, the arrangements for managing Cyber Security risk are good, particularly at an operational level. As a result we are giving an audit opinion of **Substantial Assurance**.

There are two High priority recommendations within the report relating to Risk Management and Disaster Recovery. We found that Risk Management processes could be improved by considering a single coordinated approach across both councils and we identified that a full Disaster Recovery plan is not currently in place for both councils. Disaster Recovery is fundamental and as such this area may benefit from a deeper review to provide assurance that arrangements are effective.

The majority of recommendations made within this report predominantly relate to matters of governance and improving the joined up approach between the ICT service for West Lindsey District Council (WLDC) and North Kesteven District Council (NKDC) which will further assist in reducing the risks around Cyber security as well as achieve other benefits. Management may wish to consider a full review of partnership arrangements in the future to support this further.

ICT Cyber
Security (Joint
review across
West Lindsey
& North
Kesteven)



Audit reports at draft

We have four audits at draft report stage:

- Email Security
- PSN Compliance (Joint with NKDC)
- Homelessness
- Strategic Risk – Inability to raise local educational attainment and skills

Work in Progress

We have the following audits in progress from the 2020/21 plan:

- Crematorium – Fieldwork stage
- Key Project Waste Depot – Fieldwork stage
- Key Project CRM – Fieldwork stage
- ICT Helpdesk – Planning stage
- Key Controls testing – Planning stage

Other Significant work

Combined Assurance

The annual Combined Assurance process is underway with engagement and discussions taking place with relevant staff across the Council.

Critical activities, key risks, key partnerships and key projects will be identified and assessed through our systematic risk scoring process and rated Red, Amber or Green (RAG) to create a clear visual map of assurances across the organisation. The results of this will be reported to senior management and the Governance & Audit Committee through the Combined Assurance Report. It will also support the Audit Team in developing the 21/22 Internal Audit Plan.





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 as at 30 November 2020

These key performance indicators are based on the 2020/21 audit plan commencing in Q2 and work being completed across three quarters of the year.

Performance Indicator	Year-end Target	Standard Profile Target*	20/21 Profile Target**	Actual as at 30 November
Percentage of revised plan completed	100%	66%	44%	47%
Percentage of recommendations agreed	100%	100%	100%	100%
Percentage of recommendations implemented	100% or escalated	100%	100%	100%

Definitions

*Standard profile target – This is the usual target where audits are scheduled and completed across 12 months

**20/21 profile target – This is the target based on the plan commencing in Q2 and work being completed across 9 months. This profile target does not take into account any Covid- 19 related delays



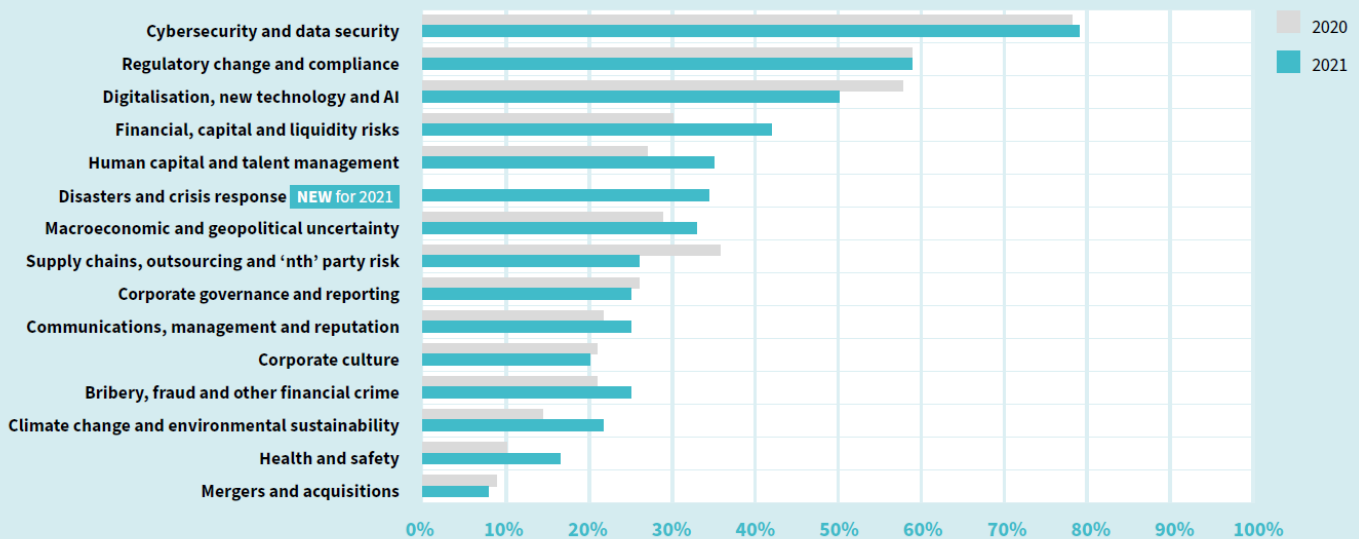
Other Matters of Interest

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

Risk in Focus 2021

This Institute of Internal Auditors (IIA) document highlights key risk areas for organisations moving forward as identified by Chief Audit Executives & Audit Committee Chairs across Europe.

What are the top five risks that your organisation faces?



There is only one new risk for 2021 – Disasters and Crisis Response. Several other established risks have also increased as a result of the pandemic.

The top ten topics raised by this work can be seen to the right.

We will use this information along with the Combined Assurance work to form next years Audit Plan. The document can be provided in full on request.

The topics are as follows:

1. Information security in the expanded work environment
2. Regulatory forbearance and the return to normal
3. Strategic relevance and the digital imperative
4. Liquidity risk and cost-cutting amid depressed demand
5. Managing talent, staff wellbeing and diversity challenges
6. Disaster and crisis preparedness: lessons from the pandemic
7. Rising nationalism and social tensions amid unprecedented economic volatility
8. Supply chain disruption and vendor solvency
9. Fraud and the exploitation of operational and economic disruption
10. Climate change: the next crisis?



Other Matters of Interest

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

Guide for Audit and Risk Committees on financial reporting and management during COVID-19

This best practice document was produced by the National Audit Office. It aims to help audit and governance committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. This includes the key areas:

1. Annual reports;
2. Financial reporting;
3. The control environment
4. Regularity of expenditure

It provides the audit committees with reasoning as to how Covid-19 may have affected certain procedures, how the Authorities may have adjusted their processes to mitigate these issues, and most importantly the key questions the Committee can ask to gain assurance in these areas.

The document can be provided in full on request.

Redmond Review

There has been an independent review into the oversight of Local Audit and the transparency of Local Authority financial reporting. This was published in September 2020. Key findings include:

- concerns expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms.
- the current fee structure does not enable auditors to fulfill the role in an entirely satisfactory way
- there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that at least an annual audit report to be submitted to Full Council.
- a key recommendation is to create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards.

The document can be viewed online - <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



Other Matters of Interest

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

Internal Audit in Lockdown - The impact of the coronavirus pandemic on internal audit teams in the UK and Ireland

This IIA document provides an insight of how Chief Audit Executives are coping with working in the current environment, and their thoughts on the long term impacts. Data was gathered through surveys and interviews.

Key Findings

33%

A third of respondents have had their working hours increased.

15%

indicate all or part of the internal audit function has been put on furlough.

46%

say internal auditors have been redeployed to the first and second lines.

2%

2% of respondents say internal auditors have been made redundant.

43%

Where affected by redeployment furlough, or redundancy, 43% say their Audit Committee Chair has been consulted.

35%

of respondents said their Audit Committee Chair has not been consulted on the changed role of internal audit, whilst 22% said they did not know.

78%

of internal auditors are in touch with their Audit Committee Chair on either a daily, weekly or monthly basis, with over half (55%) indicating on a monthly basis.

63%

advise the coronavirus did not have any impact on regulatory requirements, with 20% saying they were unsure and 17% indicating they were having challenges meeting regulatory requirements.

61%

plan a lessons learned audit or specific audit on their organisation's response to coronavirus.

This document can be provided in full on request.

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 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.

Details of overdue Audit Actions at 30 November 2020

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	

There are no overdue actions to report

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Strategic Risk – Inability to raise local educational attainment and skills levels	To review the controls and planned controls the Council has to mitigate and manage this key strategic risk.	Q2 July – Sept 2020	September 2020		Draft report
Homelessness	The homelessness strategy is delivered to achieve targets on prevention and that statutory obligations are fulfilled.	Q2 July – Sept 2020	August 2020		Draft report
Treasury Management	Provide Assurance on the Councils Treasury Management processes and controls around borrowing, investment and cash flow.	Q2 July- Sept 2020	August 2020	November 2020	High Assurance
Housing Benefit Subsidy	Test a sample of benefit cases on behalf of the external auditor to provide assurance on the subsidy claimed by the Council.	Q2 July- Sept 2020	July 2020	August 2020	High Assurance
Combined Assurance	Completing the integrated assurance mapping process for the Council by helping to map assurance against critical activities and key risks. Helping coordinate the development of the annual status report.	Q2/ Q3 July- Dec 2020	November 2020		Fieldwork
Key Project – Waste Depot	Provide assurance over the management and delivery of the Council's key project	Q3 Oct- Dec 2020	November 2020		Fieldwork
Key Project – CRM (Customer Relationship Management System)	Provide assurance over the management and delivery of the Council's key project	Q3 Oct- Dec 2020	October 2020		Fieldwork
Crematorium	Provide assurance that the operational arrangements for the Crematorium are robust effective and efficient.	Q3 Oct- Dec 2020	September 2020		Fieldwork

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
ICT – PSN Compliance	Joint review with NKDC to review the Council's compliance with standards and best practice	Q3 Oct- Dec 20	October 2020		Draft report
ICT – Email Security (2019/20)	To review the Councils compliance with standards and best practice	Q3 Oct- Dec 20	October 2020		Draft report
Key Controls Testing – General Ledger, Council Tax & VAT	To provide assurance that key controls are in place and operating effectively	Q4 Jan – Mar 20	November 2020		Planning
ICT Helpdesk	<p>Joint review with NKDC to review the effectiveness and efficiency of the helpdesk</p> <p>The previously unallocated ICT days have been added to this review to enable a deeper dive into Performance & Delivery</p>	Q4 Jan – Mar 20	November 2020		Fieldwork
Audit Follow up work	Follow up 2019/20 limited assurance areas to provide assurances that improvements have been implemented	Q4 Jan – Mar 20			
Covid 19 Business Grants	To provide assurance over claims in relation to the Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grants (RHLG).	Q4/Q1 Mar- Jun 21			

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Together 24	To provide assurance over the governance arrangements in place	Q4 Jan-Mar 21			
Contingency	Areas to be confirmed and agreed but may include Post Covid-19 assurance work	Q4 Jan- Mar 20			

Removal of audits from the Plan

Audit	Rationale	Change	Approval
Key Project – Enterprise Resource Planning System (ERP) (10 days)	The Council was due to sign a contract for the implementation of an ERP finance system on 31.3.2020, however, due to the Covid-19 pandemic and the uncertainty around the financial impacts, Management Team made the decision to put the project on hold.	Deferred until 2021/22. Days will be allocated to other areas of focus – to be agreed	Governance & Audit Committee - 16 th June 2020
ICT – ERP system (10 days)	The Council was due to sign a contract for the implementation of an ERP finance system on 31.3.2020, however, due to the Covid-19 pandemic and the uncertainty around the financial impacts, Management Team made the decision to put the project on hold.	Deferred until 2021/22. Days will be allocated to other areas of focus – to be agreed	Governance & Audit Committee - 16 th June 2020
Wellbeing Lincs (8 days)	Joint review with NKDC and ELDC. Both ELDC & NKDC have also agreed to postpone this review. Wellbeing Lincs has been and remains pivotal during the Covid-19 pandemic and continues to work very closely with the community and other partners. Consideration to defer this review to 21/22 will allow the service to focus on the recovery phase and our audit can then review the effectiveness of the Council's elements of the contract during and post Covid-19.	Deferred until 2021/22. Days will be allocated to other areas of focus – to be agreed	Governance & Audit Committee - 16 th June 2020

Addition of audits to the plan

Audit	Scope	Change	Approval
Covid 19 Business Grants	<p><i>The purpose of this audit is to provide assurance over claims in relation to the Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grants (RHLG).</i></p> <p>Our review will focus on the end-to-end process of the business grant funding from receipt of application to issue of payment and any post-event assurance undertaken. We will review a sample of applications received, undertaking due diligence on banking, business and applicant details.</p>	Addition	Management Team
Together 24	<p><i>To provide assurance that the Governance arrangements are effective</i></p> <p>Together 24 is the new transformational programme which aims to deliver its objectives via a series of technology-led service reviews in all front and back office service areas, it follows the closure of the Customer First programme</p>	Addition	Director of Corporate Services

Agenda Item 6d



**Governance and Audit
Committee**

Tuesday 12 January 2021

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

Report by:	Assistant Director of Finance, Business and Property Services (S151)
Contact Officer:	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. That the Committee review, comment on and scrutinise the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) Policy 2021/22 and recommend to Full Council for approval.**
- 2. To review, comment on and scrutinise the Capital Investment Strategy in conjunction with the Treasury Management Strategy.**
- 3. Approval of any changes to the Capital Strategy and Minimum Revenue Provision (MRP) Policy and Prudential Indicators be delegated to the Chief Finance Officer in consultation with the Chair of the Governance and Audit Committee, prior to the final strategy being presented to Council in March.**

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/119/21/TJB

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.

Data Protection Implications :

None from this report.

Climate Related Risks and Opportunities:

The strategy includes for investment in Environmental, Social and Governance (ESG) financial instruments where such factors are taken into account when choosing investment products.

Section 17 Crime and Disorder Considerations:

None from this report.

Health Implications:

None from this report.

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

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.

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

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

Executive Summary

1 Executive Summary

1.1 The Council is required to approve a Treasury Management Strategy Statement for 2021/22 before 1 April 2021. 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)

HM Treasury announced reforms on Public Works Loan Board (PWLB) borrowing in November 2020, in that it would no longer support borrowing for the acquisitions of new investment assets purchased primarily for yield (Non Treasury Activity i.e. Commercial property investment). In addition the Prudential Code precludes the use of any type of borrowing, including internal borrowing for this purpose. The Borrowing Strategy therefore no longer includes borrowing for this purpose.

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 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
- All external debt undertaken will be repaid at loan maturity

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 Councils risk appetite and through the mitigation of risks.

The Council is currently developing its strategy in relation to Sustainability, Climate Change and Environment. As the Council will be interested in undertaking actions to reduce climate change, the Council

as an ethical investor would consider the environmental, social and governance issues (ESG) when making treasury investment decisions.

However, the Treasury function is controlled by statute and professional guidance and its main priorities must remain as security, liquidity and yield.

Work will be ongoing throughout 2021/22 to understand the ESG policies and risks associated with such investments and to inform future strategy.

Consideration of ESG will be undertaken when considering new investment opportunities.

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

The Council will repay an element of prudential borrowing annually. This policy has been revised in relation to where borrowing has previously been undertaken for Non Treasury Activity.

The MRP Policy will be 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
- Voluntary Minimum Revenue Provision will be considered on an annual basis in relation to Investment Properties.

Investment Properties;

Whilst it is appreciated that these properties will be subject to wear and tear, all leases are fully insuring and repairing leases, with the liability for maintaining the asset at its current state being the responsibility of the Lessee.

The transactional costs of acquisition of these properties has been capitalised. However, all leases include contractual rental increases which are likely to result in an increased market value (all things being equal). Investment Properties will be revalued annually as at the Balance Sheet date.

The intention to hold these assets for between 5-10 years at which point the capital receipt will repay borrowing. However, valuations of these properties can go up as well as down, therefore our approach will be that on an annual basis a Voluntary Minimum Revenue Provision (VMRP) will be considered, this enables any overpayment to be recovered.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance 2019 was the allowance that any charges made over the statutory minimum revenue provision (MRP) i.e. voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

- Up until the 31 March 2020 the total Voluntary MRP (VMRP) overpayments have been nil.

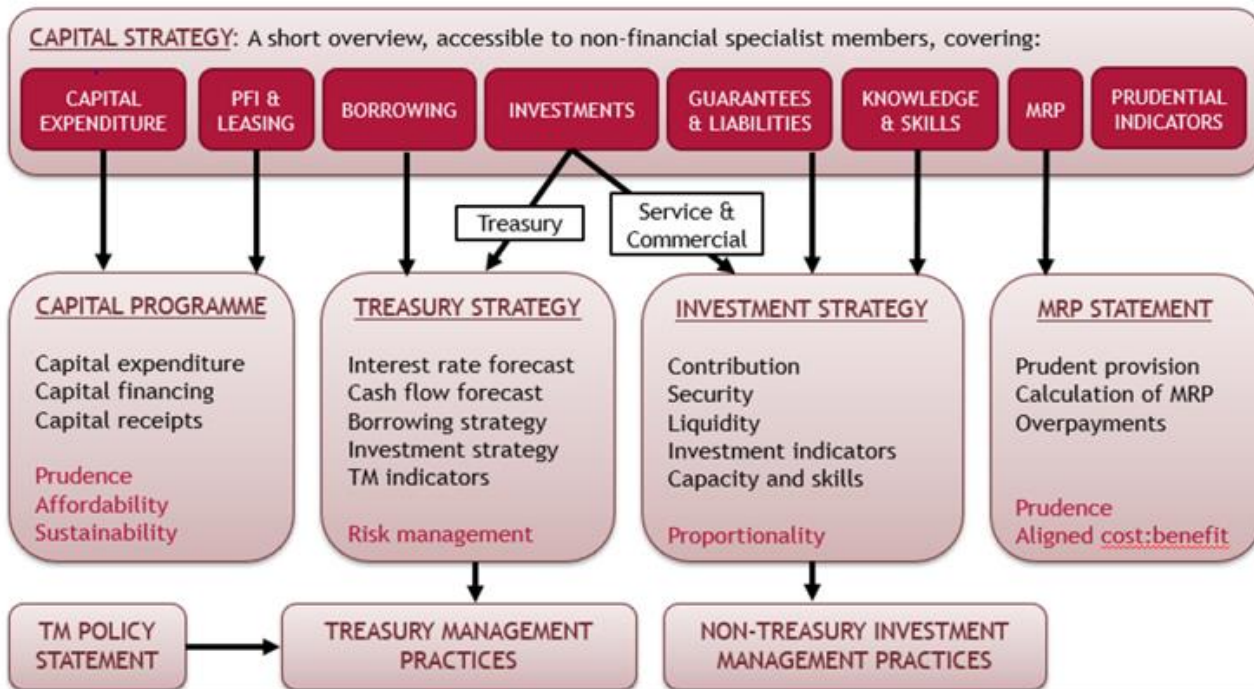
To mitigate the risk of loss of the capital receipt not meeting outstanding debt, a Valuation Volatility Reserve has been created and a minimum balance of 5% of acquisition price set. This fund will be utilised to meet any shortfall, or to contribute to the cost of VMRP payments.

- 1.3 To provide transparency the Treasury Management Strategy includes at 4.7 the (Non-Treasury) Investment Strategy in the context of the investing in commercial activity to ensure services can be maintained as government funding reduces and as previously approved by Corporate Policy and Resources Committee. At this time expert and legal advice is being sought to ensure that any additional purchases, or replacement purchases are within our powers.
- 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.

The framework below illustrates the Prudential Framework.



1.6 Prudential indicators are designed to provide support and record local decision making and not as comparative performance indicators. These are contained within the Treasury Management Strategy. As we await the final finance settlement, indicators will be finalised prior to submission to Council for approval.

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. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The Councils Corporate Plan identifies the Corporate Objectives of the Council and which then informs capital investment requirements. The 2021/22 to 2025/26 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 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.

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

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

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

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

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

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 2021/22

The strategy for 2021/22 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 7 January 2021. 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 Group, 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 2021/22 – 2023/24

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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Our People	1.455	2.796	2.456	0.595	0.595
Our Place	10.669	10.434	8.151	1.768	0.302
Our Council	0.224	0.833	0.695	0.375	0.200
Investment*	5.681	0	0	3.000	0
Total	18.029	14.063	11.302	5.738	1.097

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

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 funding borrowing need.

Financing of capital expenditure £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital receipts	0.359	2.565	0.542	3.000	0.010
External Grants	0.734	6.304	2.860	1.535	0.745
S106	0.202	0.928	0	0	0
Earmarked Reserves	1.801	1.792	4.257	1.203	0.342
Revenue Resources	0	0	0	0	0

Net financing need for the year	14.933	2.474	3.643	0	0
Total Financing	18.029	14.063	11.302	5.738	1.097

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below

Commercial activities / non-financial investments £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Expenditure	5.681	0	0	3.000	0
Financing costs	.099	0	0	0	0
Net financing need for the year	5.681	0	0	0	0
Percentage of total net financing need %	38.04	0	0	0	0

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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Fund Balance	4.234	4.820	4.487	4.480	4.440
Earmarked Reserves	15.787	17.141	12.861	11.170	10.349
Total Revenue Reserves	20.021	21.961	17.348	15.650	14.789
Capital receipts	3.462	1.035	0.558	0.624	0.689
Capital Grants Unapplied	0.538	2.274	0.501	0.501	0.501
Total Capital Reserves	4.000	3.309	1.059	1.125	1.190
Total Useable Reserves	24.021	25.270	18.407	16.775	15.979

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 so 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 assets 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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement					
Accounting Adj	1.065	1.065	1.065	1.065	1.065
Finance Leases	0	0	0	0	0
Prudential Borrowing	36.840	38.997	42.175	40.821	40.226
Total CFR	37.905	40.062	43.240	41.886	41.291
Of which: Commercial Investment Property	21.665	21.665	21.665	21.665	21.665
Movement in CFR	14.823	2.166	3.178	-1.354	-0.595

Movement in CFR represented by					
Net financing need for the year (above)	14.933	2.473	3.643	0	0
Less MRP and other financing movements	-0.092	-0.279	-0.443	-0.573	-0.573
Loan Principal repaid	-0.018	-0.028	-0.022	-0.781	-0.022
Movement in CFR	14,823	2.166	3.178	-1.354	-0.595

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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
CFR	37.905	40.062	43.240	41.886	41.291
Less Leases	0	0	0	0	0
Borrowing CFR	37.905	40.062	43.240	41.886	41.291
Less Borrowing	20.000	20.000	31.000	36.000	36.000
Over(-)/Under Borrowing	17.905	20.062	12.240	5.886	5.291
General Fund Balance	-4.234	-4.820	-4.487	-4.480	-4.440
Earmarked Reserves	-15.787	-17.141	-12.861	-11.170	-10.349
Capital receipts	-3.462	-1.036	-0.558	-0.624	-0.689
Capital Grants Unapplied	-0.537	-2.274	-0.501	-0.501	-0.501
Provisions	-0.947	-0.947	-0.947	-0.947	-0.947
Working capital*	7.062	-3.062	-1.018	-1.580	-0.288
Total Funds	-32.029	-29.279	-20.372	-19.302	-17.214
Expected investments (-) /Borrowing	-11.670	-9.218	-8.133	-13.416	-11.923

*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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt					
Debt at 1 April	16.500	20.000	20.000	31.000	36.000
Expected change in Debt	3.500	0	11.000	5.000	0.000
Gross external debt at 31 March	20.000	20.000	31.000	36.000	36.000
Internal Borrowing (at 31 March)	17.905	20.062	12.240	5.886	5.291
The Capital Financing Requirement	37.905	40.062	43.240	41.886	41.291
Internal Borrowing %	47.24	50.08	28.31	14.05	12.81

Within the range of 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 2021/22 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 Assistant Director of Finance, Business and Property Services 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	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt	20.000	31.000	36.000	36.000

Operational Boundary	37.905	40.062	43.240	41.886
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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	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Gross Debt*	20.000	31.000	36.000	36.000
Authorised Limit	55.307	45.000	48.000	47.000

*The Authorised limit allows 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.

3.4 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11 August 2020. However, following the conclusion of the review of PWLB margins over gilt yields on 25 November 2020, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

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

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

Gilt yields / PWLB rates

The PWLB borrowing rates are based on Gilt yields and therefore the movement in gilt prices is of significant interest. There was much speculation during the second half of 2019 that bond markets were trading above their true worth, driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very 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. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 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.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of

government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. 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, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, the Government undertook a review after this rise was prohibiting capital investment in regeneration activity due to increased costs. A review and consultation process was therefore undertaken. It also introduced the following rates for borrowing for different types of capital expenditure: -
 - **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
 - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
 - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- As a consequence of these increases in margins, we, as did many other local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.
- On 25 November, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had

purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
 - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.
 - 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 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 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
- 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 2021/22 treasury operations. The Assistant Director Finance, Business Support and Property Services 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 borrowing 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 upfront redemption costs would be significant based on the maturity profiles we currently have.

However, 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

In addition to borrowing from the PWLB, consideration will 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

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 / Community 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). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix D under the categories of ‘specified’ and ‘non-specified’ investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 40%.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in 4.2.

8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2020/21 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 ending 31 March 2023.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

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

The Assistant Director of Finance, Business Support and Property Services 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 the Link Group, our treasury advisors, 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 the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

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 AAand have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
 - i. Short Term – F1
 - ii. Long Term – A
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided they continue to be part nationalised or meet 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 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) CNAV – AAA
- Money Market Funds (MMFs standard) LNAV – AAA
- Money Market Funds (MMFs enhanced) VNAV – AAA
- UK Government (including gilts, Treasury Bills and the DMADF)

- Local authorities, parish councils etc.
- Housing associations
- Supranational institutions
- Local Authority Property Asset Fund (CCLA)
- Local/Community Bonds
- 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, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

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 £7.5m fixed term investment in that one institution that there is flexibility to hold, in current account balances at Lloyds Bank, up to £2m ‘cash’ on any one day:

	Fitch	Moody’s	Standard & Poors	Money Limit	Time Limit
Banks 1 – up to 1 year	F1	P1	A1	£7.5m 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 bank if not covered by 1 or 2				£1m	1 Day
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 CNAV	AAA			£7.5m per counterparty	Overnight
Money market funds LVNAV (standard)	AAA			£7.5m per counterparty	Overnight
Money market funds VNAV (Enhanced)	AAA			£5m	5 years

4.3 Other Limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 40% of the total treasury management investment portfolio.
- b) 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.
- c) Other limits. 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.

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

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 (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%

2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts

will be received from the Government in support of Covid-19 response/recovery funds.

CCLA Property fund issues

Dealing in the Property Fund was suspended in March 2020 as difficult market conditions in the property sector has resulted in material uncertainty in the fund's assets. Since then conditions in the property market have stabilised and valuation clarity and certainty have improved across its various segments. Trading recommenced 30 September 2020.

The Property Fund has now introduced a 90 day notice period for redemptions which will have to be taken into account when assessing the Council's cashflow forecasting.

As a result of Covid-19 the Property Fund Managers are anticipating a 10% reduction in the value of investments by the end of 2020 and they expect to pay 75% of income payments for the second and third quarters of 2020, the proportion rising in the final quarter as recovery arrives. The income from the fund still remains attractive in this period of ultra-low interest rates.

Ethical Investing

The Council is currently developing its strategy in relation to Sustainability, Climate Change and Environment. As the Council will be interested in undertaking actions to reduce climate change, the Council as an ethical investor would consider the environmental, social and governance issues (ESG) when making treasury investment decisions.

However, the Treasury function is controlled by statute and professional guidance and its main priorities must remain as security, liquidity and yield.

Work will be ongoing throughout 2021/22 to understand the ESG policies and risks associated with such investments and to inform future strategy.

Consideration of ESG will be undertaken when considering new investment opportunities.

Treasury Investment Portfolio

The Council is expecting to have an average investment portfolio of £13m throughout 2021/22 and expects to receive investment income totalling £0.100m as shown below:

Treasury Investment Portfolio	Average Portfolio £m	Interest Rate %	Interest £m
Liquidity Investments	10.0	0.10	0.010

Long Term Investments	3.00	3.00	0.090
Total Investment Income (2021/2022)	13.00	0.08	0.100

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	2021/22	2022/23	2023/24
Principal sums invested > 365 days	£5m	£5m	£5m

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.

The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

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) to date and the gross return 2021/22 is estimated to be 6.34%.

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 Chief Executive in consultation with the Chief Finance Officer and Leader of the Council, provided that the purchase is within agreed criteria. All assets will be assessed against these criteria and the Chief Executive 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. Reserves will be utilised to fund any further 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 2021/22 – 2023/24 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	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Our People	1.455	2.796	2.456	0.595	0.595
Our Place	10.669	10.434	8.151	1.768	0.302
Our Council	0.224	0.833	0.695	0.375	0.200
Investment	5.681	0	0	3.000	0
Total	18.029	14.063	11.302	5.738	1.097

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);

In applying the Asset Life Method MRP should normally follow the year after the expenditure has been incurred. However, in accordance with Statutory Guidance commencement of MRP may be deferred until the asset becomes operational.

The estimated useful life of assets will not exceed 50 years except as otherwise permitted by the guidance (and supported by valuer's advice). If no useful life can be attributed to the asset, i.e. land, then the estimated useful life will be taken as 50 years

- **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 capital 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 has borrowed and anticipates a capital receipt will be realised within the short/medium term, i.e. 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 Voluntary Minimum Revenue Provision 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 and contribute to Voluntary MRP.

- **Finance Leases**

MRP for finance leases and service concessions will be charged over the primary period of the lease, in line with the guidance.

- **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.

%	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Net Revenue	TBC	TBC	TBC	TBC
Expenditure				
£m				
Interest Payable £m				
Interest Receivable (-) £m				
MRP £m				
Capital Financing				
Charges				
% Ratio				

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:

£	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Council tax - band D	TBC	TBC	TBC	TBC	TBC	TBC

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	2021/22	2022/23	2023/24
Interest rate exposures			
	Upper	Upper	Upper
Limits on fixed interest rates:			
• Debt only		100%	100%
• Investments only		75%	75%
Limits on variable interest rates			
• Debt only	25%	25%	20%
• Investments only	100%	100%	100%
Maturity structure of fixed interest rate borrowing 2021/22			
	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 2021/22			
	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

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View		9.11.20					(The Capital Economics forecasts were done 11.11.20)								
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20															
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Bank Rate															
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-	
5yr PWLB Rate															
Link	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-	
10yr PWLB Rate															
Link	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-	
25yr PWLB Rate															
Link	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-	
50yr PWLB Rate															
Link	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-	

APPENDIX C ECONOMIC BACKGROUND (as at November 2020)

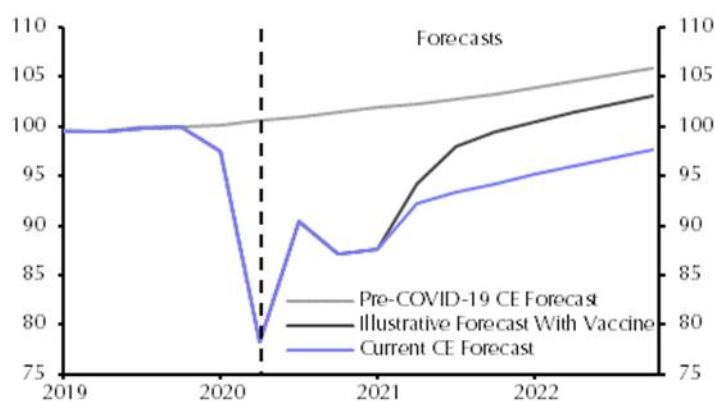
- **UK.** The Bank of England's Monetary Policy Committee kept **Bank Rate** unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:
 - The economy would recover to reach its pre-pandemic level in Q1 2022
 - The Bank also expects there to be excess demand in the economy by Q4 2022.
 - CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance** in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. **Inflation** is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the “recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside”. It also said “the risk of a more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.
- As for **upside risks**, we have been waiting expectantly for news that various **COVID19 vaccines** would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don’t know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.
- However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions

around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

- **Public borrowing** is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast could happen if successful vaccines were widely administered in the UK in the first half of 2021; this would cause a much quicker recovery.

Level of real GDP (Q4 2019 = 100)



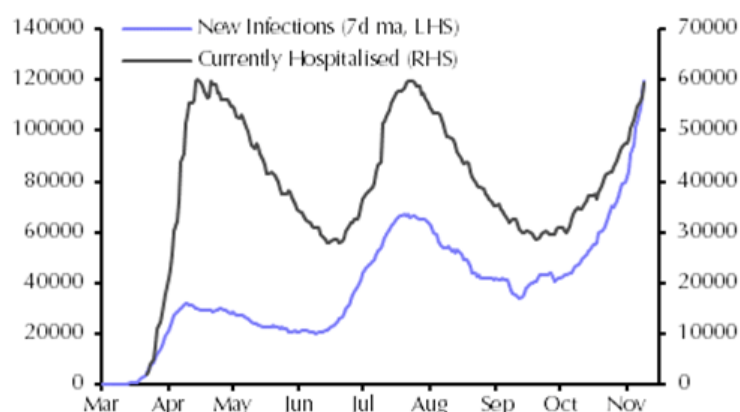
- There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
- The **Financial Policy Committee (FPC)** report on 6th August revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

US. The result of **the November elections** means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. This means that the Democrats will not be able to do a massive fiscal stimulus, as they had been hoping to do after the elections, as they will have to get agreement from the Republicans. That would have resulted in another surge of debt issuance and could have put particular upward pressure on debt yields – which could then have also put upward pressure on gilt yields. On the other hand, equity prices leapt up on 9th November on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. This could cause a big shift in investor sentiment i.e. a swing to sell out of government debt to buy into equities which would normally be expected to cause debt prices to fall and yields to rise. However, the rise in yields has been quite muted so far and it is too early to say whether the Fed would feel it necessary to take action to suppress any further rise in debt yields. It is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the **pandemic** with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March

and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 New infections & hospitalisations



After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal. The Fed's meeting on 5 November was unremarkable - but at a politically sensitive time around the elections.

EU. The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus, (e.g. France 18.9%, Italy 17.6%). However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments. The current PEPP scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, the PEPP scheme is regarded as being a temporary measure during this crisis so it may need to be increased once the first PEPP runs out during early 2021. It could also decide to focus on using the Asset Purchase Programme to make more monthly purchases, rather than the PEPP scheme, and it does have other monetary policy options.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.

World growth. While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

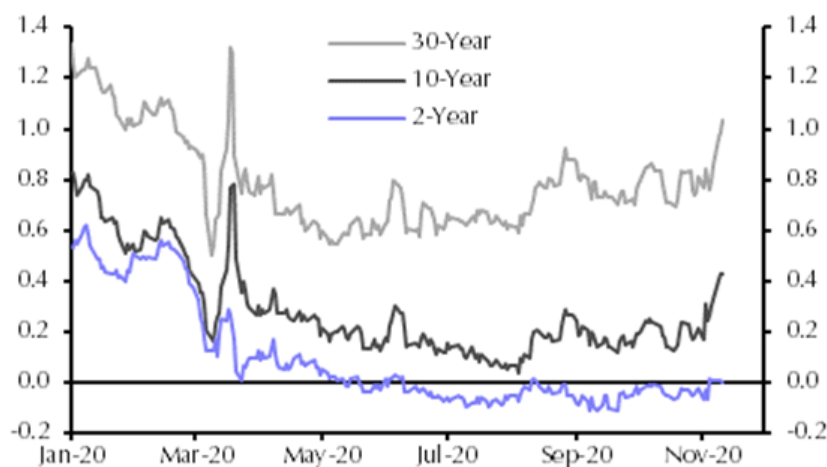
Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering 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.

Summary

Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this is likely to result in more quantitative easing and keeping rates very low for longer. It will also put pressure on governments to provide more fiscal support for their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

The graph below as at 10th November, shows how the 10 and 30 year gilt yields in the UK spiked up after the Pfizer vaccine announcement on the previous day, (though they have levelled off during late November at around the same elevated levels): -



INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. However, as the differences between a Brexit deal and a no deal are not as big as they once were, the economic costs of a no deal have diminished. The bigger risk is that relations between the UK and the EU deteriorate to such an extent that both sides start to unravel the agreements already put in place. So what really matters now is not whether there is a deal or a no deal, but what type of no deal it could be.

The differences between a deal and a no deal were much greater immediately after the EU Referendum in June 2016, and also just before the original Brexit deadline of 29.3.19. That's partly because leaving the EU's Single Market and Customs Union makes this Brexit a relatively "hard" one. But it's mostly because a lot of arrangements have already been put in place. Indeed, since the Withdrawal Agreement laid down the terms of the break-up, both the UK and the EU have made substantial progress in granting financial services equivalence and the UK has replicated the bulk of the trade deals it had with non-EU countries via the EU. In a no deal in these circumstances (a "cooperative no deal"), GDP in 2021 as a whole may be only 1.0% lower than if there were a deal. In this situation, financial services equivalence would probably be granted during 2021 and, if necessary, the UK and the EU would probably rollover any temporary arrangements in the future.

The real risk is if the UK and the EU completely fall out. The UK could override part or all of the Withdrawal Agreement while the EU could respond by starting legal proceedings and few measures could be implemented to mitigate the disruption on 1.1.21. In such an "uncooperative no deal", GDP could be 2.5%

lower in 2021 as a whole than if there was a deal. The acrimony would probably continue beyond 2021 too, which may lead to fewer agreements in the future and the expiry of any temporary measures.

Relative to the slump in GDP endured during the COVID crisis, any hit from a no deal would be small. But the pandemic does mean there is less scope for policy to respond. Even so, the Chancellor could loosen fiscal policy by about £10bn (0.5% of GDP) and target it at those sectors hit hardest. The Bank of England could also prop up demand, most likely through more gilt and corporate bond purchases rather than negative interest rates.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

So in summary there is not likely to be any change in Bank Rate in 20/21 – 21/22 due to whatever outcome there is from the trade negotiations and while there will probably be some movement in gilt yields / PWLB rates after the deadline date, there will probably be minimal enduring impact beyond the initial reaction.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.
- **UK / EU trade negotiations** – if they were to cause significant economic disruption and downturn in the rate of growth.
- **UK - 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**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield

weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** 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 subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland 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. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK** - stronger than currently expected recovery in UK economy, especially if effective vaccines are administered quickly to the UK population and lead to a resumption of normal life and a return to full economic activity across all sectors of the economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic 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.

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 Assistant Director of Finance, Business Support and Property Services 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/Community Bonds	£2m
G	Local Authority Property Asset Fund	£4m

H	Certificates of Deposit	£2m
I	Covered Bonds	£1m
J	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 Assistant Director of Finance, Business Support and Property Services, 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 27.11.2020)

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 credit worthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong

- Qatar
- U.K.

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 2021/22 – 2025/26

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 year's 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 (ESG), 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, Partnerships, 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. Governance of the Capital Investment Programme

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 priorities 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 (budget movements) 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. Capital Financing

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.

7 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.

8 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 Socio-Economic return on investment, invest to save schemes which achieve efficiencies, and investment in our operational service asset needs.

9 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

10 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.

11 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.

12 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 i.e. 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.

13. 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 Chief Executive and the Leader of the Council 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 on an annual basis 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.

14. 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 up to 5% of overall VAT). If exempt VAT exceeds 5% the whole amount is then irrecoverable. Each scheme is therefore assessed for its impact

15. 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 Workplan as at 4 January

Purpose:

This report provides a list of reports due at committee in the coming months.

Recommendation:

1. That members note the workplan.

Date	Title	Lead Officer	Purpose of the report	Date First Published
9 MARCH 2021				
9 Mar 2021	Certification of Grants & Returns	Caroline Capon, Corporate Finance Team Leader	Review of the Certification of Grants and Returns	08 June 2020
9 Mar 2021	External Audit Strategy Memorandum (Plan) 2020/21	Caroline Capon, Corporate Finance Team Leader	Review of External Audit plan for the Closure of the 2020/21 Accounts	08 June 2020
9 Mar 2021	Accounts Closedown 2020/21 Accounting Matters	Caroline Capon, Corporate Finance Team Leader	Review of Accounting Policies, Key Dates and Risk	08 June 2020
9 Mar 2021	Combined Assurance Report 2020/21	James O'Shaughnessy, Corporate Policy Manager & Deputy Monitoring Officer	To present the findings and analysis of the Council's Combined Assurance Report for 2020/21	05 October 2020
9 Mar 2021	Internal Audit Draft Annual Plan Report 2021/20222	James Welbourn, Democratic and Civic Officer	By Assurance Lincolnshire	05 October 2020
13 APRIL 2021				
13 Apr 2021	Internal Audit Quarter 4 Report	James Welbourn, Democratic and Civic Officer	By Assurance Lincolnshire	08 June 2020

15 JUNE 2021

15 Jun 2021	Unaudited Statement of Accounts 2020-21	Caroline Capon, Corporate Finance Team Leader	Unaudited Statement of Accounts 2020-21
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20 JULY 2021

20 Jul 2021	Report to those charged with Governance - EXTERNAL AUDIT COMPLETION REPORT - ISA 260	Caroline Capon, Corporate Finance Team Leader	To present to those charged with governance, the External Audit report on the quality of the Statement of Accounts and Annual Governance Statement 2020/21.
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20 Jul 2021	Audited Statement of Accounts	Caroline Capon, Corporate Finance Team Leader	To consider the Audited Statement of Accounts
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of the Local Government Act 1972.

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