Public Document Pack

West Lindsey District Council

Guildhall Gainsborough
Lincolnshire DN21 2NA
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AGENDA

This meeting will be webcast live and the video archive published on our website

Governance and Audit Committee
Tuesday, 24th January, 2023 at 10.00 am
Council Chamber - The Guildhall

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

1. **Apologies for Absence**

2. **Public Participation Period**
Up to 15 minutes are allowed for public participation. Participants are restricted to 3 minutes each.

3. **Minutes of Previous Meeting** (PAGES 3 - 9)
To confirm and sign as a correct record the Minutes of the Meeting of the Governance and Audit Committee held on Tuesday 29 November 2022.

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** (PAGES 10 - 11)
Matters Arising schedule setting out current position of previously agreed actions as at 16 January 2023.

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**

a) Auditor's Annual Report (Year Ended 31 March 2022) (PAGES 12 - 41)

b) Internal Audit Quarter 3 Report 2022/23 (PAGES 42 - 59)

c) Draft Treasury Management Strategy 2023/24 (PAGES 60 - 118)

d) Member Development - 2023 Full Member Induction Programme (PAGES 119 - 126)

7. **Workplan** (PAGES 127 - 129)

Ian Knowles
Head of Paid Service
The Guildhall
Gainsborough

Monday, 16 January 2023

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Council Chamber - The Guildhall, Marshall's Yard, Gainsborough, DN21 2NA on 29 November 2022 commencing at 10.00 am.

Present:	Councillor John McNeill (Chairman) Councillor Mrs Jackie Brockway (Vice-Chairman) Councillor Stephen Bunney Councillor Christopher Darcel Councillor Mrs Angela White Councillor Mrs Angela Lawrence Alison Adams Andrew Morriss
In Attendance:	
Emma Foy	Director of Corporate Services and Section 151
Emma Redwood	Assistant Director - People and Democratic Services
Peter Davy	Financial Services Manager (Deputy Section 151 Officer)
Michael Norman	Auditor Mazars
Katie Storr	Democratic Services & Elections Team Manager
Andrew Warnes	Democratic and Civic Officer
Apologies:	Councillor Mrs Tracey Coulson Councillor Mrs Caralyne Grimble
Membership:	Councillor Mrs Angela Lawrence substituted for Councillor Mrs Tracey Coulson

30 PUBLIC PARTICIPATION PERIOD

There was no public participation.

31 MINUTES OF PREVIOUS MEETING

RESOLVED that the Minutes of the previous Meeting of the Governance and Audit Committee, held and adjourned on 11 October 2022, and re-convened on 21 October 2022 be approved and signed as a correct record.

32 MEMBERS DECLARATIONS OF INTEREST

There were no declarations of interests made at this point in the meeting.

33 MATTERS ARISING SCHEDULE

Members expressed their thanks for the flood risk letter, and requested further information going forward. The Matters Arising Schedule was duly **NOTED**.

34 REPORT TO THOSE CHARGED WITH GOVERNANCE - EXTERNAL AUDIT COMPLETION REPORT (ISA260)

Members considered an External Audit report on the quality of the Statement of Accounts. The report was introduced by Mike Norman of Mazars, one of the Authority's External Auditors. In presenting the report he highlighted the key headlines, these being on pages 23 and 24 of the report

- An anticipated unqualified audit opinion on the 2021/22 Statement of Accounts, with the proposed audit opinion included in the Draft Auditor's Report attached at Appendix B of the main report.
- Value for Money work remained in progress and the results would be reported within the Auditor's Annual Report later in the year. There were no significant weaknesses in arrangements to report in relation to the arrangements that the Council had in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on the Value for Money work was provided in section 7 of this report.
- The Whole of Government Accounts had not yet been issued to authorities to complete and the Auditors were awaiting instruction from the National Audit Office.
- There have been no public objections to the accounts.

Referring Members to page 26 of the report pack, the External Auditor confirmed that work in relation to the "Net Defined Benefit Pension Liability valuation" was now completed and as such he could confirm that no material issues had been identified.

Members attention was also drawn to Section 6 of the report which set out audit misstatements, which included a small number of unadjusted misstatements.

There was one material misstatement identified during the Audit that had now been corrected by Officers, page 45 of the report pack provided details of this and circumstances which had seen this arise and there were two unadjusted misstatements to note in the following areas in

- Pension Scheme – Net Pension Liability. The Pension Fund advised that there had been an increase in the pension fund asset value in the time between the Actuary preparing the original IAS19 pension figures and the audit of the Council's accounts (September/October 2022). A new IAS19 report was therefore requested by the Council in October 2022 and the amount of the valuation increased to the asset value was £439k. The impact of this was to reduce the Council's net pension liability by the same sum.
- Valuation of Property, Plant and Equipment. During the audit a small number of errors were identified in asset data used by the Valuer. Updated valuations for the affected assets were requested which had resulted in a net increase in the asset values of £88k.

These were not considered to be material and Officers had not proposed to adjust the financial statements as result, the Auditor indicated his satisfaction with that position.

In concluding the External Auditor highlighted that the Audit had not identified any significant internal control deficiencies, no significant risks nor had they encountered any difficulties in undertaking their work. Thanks were expressed to the finance team for their co-operation.

Debate ensued and in response to questions, regarding the material misstatement, the S151 Officer explained the circumstances which had seen an additional £700,000 deemed payable to HMRC. This payment was under dispute and Members were advised there was a meeting scheduled with HMRC to ascertain a solution.

In responding to comments on the formatting and accessibility of the reports, Members were informed that previous feedback had resulted in revisions been made, but the further feedback provided during the meeting would be passed to relevant officers. Regarding the minor individual errors, Members sought and received assurance that these were not looked at insolation and if a large number of small errors had been identified this would be referenced and effect the overall opinion. This was not the case in respect of West Lindsey with the External Auditor further explaining that the £88,000 figure was an aggregated figure.

RESOLVED that the content of the report be accepted

35 AUDITED STATEMENT OF ACCOUNTS 2021/22

Members considered the Audited Statement of Accounts for 2021/2022. An introduction was provided by the Section 151 Officer, who was pleased to advise that the Statement of Accounts 2021/22, had received an unqualified audit opinion. The Statements reflected the Authority's financial activity for the year up to 31 March 2022.

Prior to opening the debate, and at the request of the Chairman, the Monitoring Officer confirmed all present had undertaken the required training in accordance with the Constitution.

In opening, Members congratulated Officers on the presentation of the report and commented on the positive impact the Council's Community Grant Scheme had on local communities and in levering in match funding.

Lengthy questioning ensued and explanation was requested and received regarding the details of note 11 on page 131 of the agenda pack, regarding the corrections listed. The Section 151 Officer explained the movement in earmarked reserves had been recategorized for consistency into three types of reserves as required by the newly instated statement of recommended practice. Members were assured that it was a requirement to classify, and provide competitors contingency and risk service investments.

In responding to further questions in respect of the Council owned companies and joint ventures, the S151 Officer advised as to why these companies were only referenced in a disclosure note to the Accounts. This was primarily due to them not being material in size. Officers outlined how materiality was defined and Members were reminded where Business

Plans and accounts for such ventures were reported to.

Members were keen to ensure there was a route by which subsidiary companies were reviewed to ensure they still met their objectives, were fit for purpose, served a need and were still the appropriate mechanism. Furthermore, there should be transparency around any such review. Members were assured that the Monitoring Officer could consider reviews and future audits into West Lindsey District Council's subsidiary companies and it was suggested these should be considered for inclusion in the Annual Audit Plan.

Members also learned the decreased received money was due to the decline in Covid-related activity provided by the Authority.

In responding to a question which sought clarity of what the service investment fund was used for and how it was replenished, Members ascertained such funds were used for IT upgrades, IT replacement programmes, and new systems such as the new finance system introduced in year. Service Investment Funds were generally funded by a combination of under spends in a year, where something had been budgeted to take place in one year, but the actual renewal took place in the following year, creating a special ear marked reserve for it, or any surplus in grant funding that wasn't expected. Earmarked reserves were created either from an underspend or where there was a known future liability.

Members further sought clarity as to whether service investment, involved investment in training. In responding the Section 151 Officer advised that earmarked reserves could be used, for invest to save projects, these may be capital investments or training where this would lead to savings in the future, citing a good example as the T24 programme. Change, officers were funded from earmarked reserve and provided business analysis that would lead to future savings and/or improved service delivery.

Members sought from the Section 151 Officer the key points she would draw from the report to provide confidence that the Authority was in sound financial position, firstly it was noted that unlike a number of Councils, the Authority was not at risk of issuing a Section 114 notice. The Officer highlighted three key successes.

The first was the borrowing levels. The Officer explained that the Authority could pay off the long-term and short-term borrowing levels in one payment, highlighting the high risks with local government finances and other local authorities' situations. The second success was the cash flow statement, which had a net increase over the financial year, with £17 million available. The third element was surrounding the future funding gaps against the general reserve balances of £4 million. The funding gap over the medium term remained within the grasp of the current general fund balances over the next two to three years. The Committee also indicated that a note on the statements to explain these positive features may have been helpful, particularly in communicating the statements. Noting an increase in salaries over the year Officers advised that this were primarily funded from the successful Levelling Up Grant Fund, which had allowed additional Officers to brought in fully funded. These Officers were on fixed term contracts aligned with the funding.

Noting the impact of inflation, Members questioned where the biggest risks to the Council were. The biggest cost to the Authority was it staffing but as a result of prudent budgeting for a 4% increase, further supported by a decrease in the national insurance contributions by employers, no significant overspend was projected. In a related query about inflationary concerns, the Section 151 Officer explained that though electricity was the primary concern, the larger buying arrangement with ESPO and provisions in the 2022/23 budget placated significant inflation-related concerns. There was no forecast of substantial overspend.

There were, as always, concerns about the Pension Fund deficit and Committee sought indication as to whether inflation was helpful or unhelpful in reducing the deficit. Members were advised that at the latest tri- annual review the Council's position in terms of the value of assets and liabilities was that the increase to the scheme, in terms of the payment the Council had to make, was lower than expected. Due to a move from a final salary pension scheme to an average salary pension scheme, whilst the liabilities remained high, it was anticipated that the adversity of that situation would reduce over time, as more people in the scheme were based on average salary rather than final salary. It was stressed that any reduction in the fund (amount owned) could not be used in budgeting due to the re-evaluation process.

It was also noted the likelihood of the deficit having to be repaid all at the same time was highly unlikely. Due to the points raised regarding pensions, the liability and the uncertainty they created on a Council's budgets, it was suggested the Committee's comments and concerns be raised with Council's representative on the Lincolnshire County Council's (LCC) Pensions Board.

Noting the decrease in monies received from the Council companies, Members sought indication as to whether that should be cause for concern, but were advised that the decrease in 21/22, was really following quite a significant increase during 20/21, during Covid. The Committee heard the benefits this arrangement had afforded. Noting the increase in temporary staffing and that this primarily related to refuse drivers delivering the waste contract, Members enquired as to whether this was due to the Purple lidded bin roll out. It had been suggested LCC was to fund the project and Members enquired as to what costs had been borne by West Lindsey. Officers undertook to find the detail.

In responding to further questions, Members were assured that the decrease in the creditors and debtors in the cash flow statement was due to the timing of receiving grant money, meaning money was moved forward to pay it out in time for schemes, such as the Energy Rebate Scheme, Covid Grants, Business Rate Relief This resulted in cash flow swings larger than expected but it was anticipated the large swings would reduce through 23/24.

It was confirmed the increases in heritage assets were due to re-evaluations as opposed to new assets being on the register.

Near the end of the debate, the Monitoring Officer clarified that a portion of the Annual Governance Statement, which focused on the areas for improvement had been excluded from the version attached to the Statement of Accounts. The statement agreed by the Committee in July 2022 remained the same namely: -

"Governance Risks – Areas for Improvement during 2022-23 (year ahead)

Whilst we are satisfied with the effectiveness of the corporate governance arrangements and systems of internal control, as part of our continued efforts to improve governance the following issues have been identified for improvement as part of the 2021-22 Annual Governance Statement process. An action plan will be implemented to ensure activity takes place to bring about the improvements.

- Loss of key staff – ensure that processes are fully documented, succession plans in place where appropriate, identify activities which are overly reliant on one individual
- Financial settlement – continue to update the MTFS as we gain greater certainty on the level of funding for future years
- Preparing for all out elections in May 2023 – ensure robust election planning and deliver an effective member induction plan
- New finance system – ensure it is effective and compliant
- Continue the review of corporate procurement procedures (carried forward from last year). The Council historically has bought in services from Lincolnshire Procurement but due to recruitment issues they can only provide a limited service
- Continue the implementation of CIPFA FM Code requirements."

This section would be included in the published accounts.

RESOLVED that: -

(a) having reviewed the Statement of Accounts, Committee confirmed that there were no concerns arising from the Financial Statements that need to be brought to the attention of the Council.

(b) the Statement of Accounts for 2021/22 and their certification by the Chairman of the Committee be approved; and

(c) the Section 151 Officer and the Chairman of this Committee be permitted to certify the letter of representation to the Auditor, Mazars, on completion of the audit.

36 REVIEW OF WHISTLEBLOWING ACTIVITY

Members considered a report which provided a review of whistleblowing activity by the Monitoring Officer for the 2021/22 year.

The policy was reviewed by the Governance and Audit Committee in 2021 with recommendations made for the Joint Staff Consultative Committee to consider. The reviewed policy was presented to the Corporate Policy and Resources Committee in April 2022 and was agreed for adoption.

There had been 5 referrals made to the Whistleblowing helpline in the period April 2021 to March 2022. 1 referral was made in April 2022 which fell outside of this reports period but was been included for information.

4 referrals were passed to the DWP
1 referral was made regarding planning permission and was passed to the service as a planning query
1 was made by a fraud investigator from Crawley Borough council to locate a person suspected of committing social housing fraud (this was the April 2022 case)

There had been no incidents of whistleblowing raised internally within the Council. It was still vitally important that the Authority maintained and continued to publicise the reporting mechanisms and Officers outlined the various mediums by which such promotion was undertaken. The Counter Fraud Team were the gatekeeper for all whistleblowing referrals for the District Council. The policy continued to be communicated to staff and was included in the quarterly corporate.

Debate ensued, and Members questioned the value of the service. The Monitoring Officer explained the services and reporting comes through all related activity, with its cost forming part of the package of internal audit work, such as counter fraud investigations, and that the results in the report were from the whistleblowing helpline. Regarding the value for money, it was considered essential for staff, residents, and contractors to be able to raise whistleblowing concerns externally to the organisation and this was provided by the Partnership.

In responding to further queries, Members heard the service formed part of the Corporate Induction, with the Policy advertised further to the Wider Management Team. It also formed part of the consideration of the 2023/24 Council's work. The Monitoring Officer referenced further outreach, such as the Parish Newsletter and broader publication schemes was possible.

In the concluding part of the debate, the Monitoring Officer clarified that whistleblowing could be considered in the next year's audit plan.

RESOLVED that: -

(a) the contents of the report be noted; and

(b) the Committee continue to receive annual reports in relation to policy implementation and incidents.

37 WORKPLAN

The Workplan as set out in the report was **NOTED**.

The meeting concluded at 11.24 am

Chairman

Governance & Audit Committee Matters Arising Schedule

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

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

Matters arising Schedule

Meeting	Governance and Audit Committee				
Status	**Title**	**Action Required**	**Comments**	**Due Date**	**Allocated To**
Black	Chairman to write to Lincolnshire County Council re Flood Management Audit Progression	Arising at Meeting on 21/10/22 - Committee requested the Chairman to write to the Chairman of LCCs Audit commit to express the need for urgency in them conducting their Audit in respect of Flood Management.	Update (13/12/12) - Received response from Chairman of Lincolnshire County Council's Audit Committee. This was sent to Cllr John McNeill, Chairman of West Lindsey's Governance and Audit Committee.	29/11/22	Cllr. J McNeill
Black	Item for Members Bulletin/Newsletter - WLDC Role Responsibilities and Response to Flooding	Arising from cttee 21/10/22 Members requested information be included in a future Member Bulletin Clearly setting out WLDCs role responsibilities and response to flooding. The information to also highlight the existence of the flooding Group and how members can feed into in etc.	Please feed article through to Democratic services when ready for inclusion in the next available bulletin. Update (23 December 2022): Item received by Democratic Services, and was included in December 2022 Newsletter.	31/12/22	Ady Selby
Black	Commitment from Group Leaders regarding training at Induction and beyond	Minutes from 21/10/22 - It was suggested the Chair of the Committee could maybe take something back to other group leaders groups /reps to see whether or not they will make more of a commitment for people to attend the training.	Each Group Leader was issued with a letter in the post regarding this matter at the end of November.	31/03/23	Cllr. J McNeill

Green	West Lindsey District Council owned companies - meeting their objectives	Arising from the meeting on 29/11 having noted where the Business Plans and accounts for subsidiary companies were reported to, the cttee wanted to ensure there was a route by which the subsidiary companies were reviewed to ensure they still met their objectives were fit for purpose etc, served a need, were still the appropriate mechanism and that there was transparency around that process. It was suggested inclusion in the Internal Audit Annual Plan should be considered.	See action required.	30/06/23	Emma Foy
Green	Request to include Whistleblowing Service into 2023/24 Internal Audit Plan	Taken from draft minutes of 29/11/22 Committee Meeting: In response to comments expressed during the debate the Chairman suggested that having some assurance on the Value for Money aspect of the Whistleblowing service would be useful and suggested this be considered in next year's audit plan. or via a separate small piece of work.	See action required.	18/04/23	Emma Foy
Green	Concerns over pension liability	During the Statement of Accounts debate on 29/11/22: Members raised some points of concern and had questions which the Chairman suggested be brought to the attention of the District Councils Member Rep on the LCC Pensions Committee.	Summary of the relevant debate and link to webcast to be shared /brought to the attention of Councillor Bob Waller on behalf on the G and A Cttee for him raise at next pension cttee meeting.	31/01/23	Andrew Warnes
Green	Purple lidded bin rollout costs in SOA	Officers to ascertain particulars of the costs listed - re purple lidded bin rollout as it had been believed these were been covered at County level.	Please provide information as requested.	16/01/23	Emma Foy

Agenda Item 6a

Governance and Audit Committee	
Tuesday, 24 January 2023	

Subject: Auditor's Annual Report (Year Ended 31 March 2022)

Report by:	Director of Corporate Services and Section 151 Officer
Contact Officer:	Peter Davy Financial Services Manager Peter.Davy@west-lindsey.gov.uk
Purpose / Summary:	To present to those charged with governance, the Auditor's Annual Report on the work undertaken by Mazar's for the year ended 31 March 2022.

RECOMMENDATION(S):

That members accept the content of this report.

IMPLICATIONS

Legal: None from this report.

Financial: FIN/141/23 Our External Auditor, Mazars has been appointed from 1 April 2019 as part of the Public Sector Audit Appointments (PSAA) contract awards. The fee for the audit fee was £53,487.

Staffing: None from this report.

Equality and Diversity including Human Rights: None from this report.

Data Protection Implications: None from this report.

Climate Related Risks and Opportunities: None from this report.

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

Risk Assessment:
N/A

Call in and Urgency:

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

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

Key Decision:

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

Background

The Report to those charged with Governance is attached at Appendix A, the headlines of which include:

- An unqualified audit opinion on the 2021/22 Statement of Accounts.

- That no significant weaknesses in Value for Money arrangements were identified and no recommendations arose from the work done.

- No questions or objections in respect of the Council's financial statements were received by the auditor's under the Local Government and Accountability Act 2014

The report will be presented by Michael Norman, Audit Manager, Mazars.

The Auditor's Annual Report is attached at Appendix A.

Auditor's Annual Report

West Lindsey District Council – year ended 31 March 2022

January 2023

mazars

Contents

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales

01

Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for West Lindsey District Council ('the Council') for the year ended 31 March 2022. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements
We issued our audit report on 30 November 2022. Our opinion on the financial statements was unqualified.

Value for Money arrangements
In our audit report issued, on the 30 November 2022, we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.

Wider reporting responsibilities
We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Council's financial statements.

02

Section 02:

Audit of the financial statements

Page 20

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on 30 November 2022 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

Our Audit Completion Report 2021/22, presented to the Council's Governance and Audit Committee on the 29 November 2022, provides further details of the findings of our audit of the Council's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit. There are no matters raised in our Audit Completion Report 2021/22 that we need to repeat in this report.

03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services

Governance - How the Council ensures that it makes informed decisions and properly manages its risks

Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table on the following page summarises the outcomes of our work against each reporting criteria. We did not identify any risks of significant weakness, or actual significant weakness, in the Council’s arrangements.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting Criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	**11**	No	No	No
Governance	**15**	No	No	No
Improving economy, efficiency and effectiveness	**19**	No	No	No

3. VFM arrangements – Overall summary

Context of the Auditor's Annual Report

Our Auditor's Annual Report summarises the work we have undertaken as the auditor for West Lindsey District Council for the year ended 31 March 2022, where at the time of reporting in January 2023, we recognise that the social, political and economic environment has changed and local government is facing significant challenges including:

- **Cost of Living**: With most people experiencing financial pressure, spending habits are changing. High energy costs and increasing food prices have impacted on levels of disposable income. With wage (and potentially benefit) increases failing to keep pace with inflation, more people will be facing hardship.
- **Added budget pressures:** With inflation soaring, the cost of goods, services and resources are becoming more expensive. Local authorities are not immune to the increasing cost of energy supply, although the government announcements on energy caps help, many local authorities are still facing higher costs. Local authorities typically budget for modest salary increases year on year, but expectations and demands on salary increases have changed and consideration on how they are to be funded is required.
- **Cost of Borrowing:** The Bank of England base rate rose to 3.5% in December 2022 meaning that the cost of borrowing has increased significantly.
- **Contractors and Suppliers**: The cost-of-living crisis has resulted in business failures. Although government support has been announced, some businesses will continue to struggle, with a greater risk of supplier failure. Supply failures anywhere in the supply chain will have a knock-on effect.
- **Service Delivery**: Likely budget reductions and savings plans are going to impact the ability of local authority services to maintain levels of delivery, particularly at a time of increased demand.

We maintain a watching brief over the key issues facing the Council and, should we identify a risk of significant weakness in arrangements, will follow the process as described at page 9 to promptly raise these with management and issue any reports to the Governance and Audit Committee as part of our audit for the year ending 31 March 2023.

3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the Council's operating environment in 2021/22

The Council entered 2021/22 with the Covid-19 pandemic still significantly impacting daily lives although the national restrictions and safety measures were steadily being relaxed as the Country sought to recover from a very difficult period. The Council was continuing to deal with a wide range of issues to support local residents and businesses and had an improving understanding of the issues faced in the emerging post-pandemic environment.

2021/22 Financial statement performance

We have carried out a high level analysis of the audited financial statements, including the Comprehensive Income and Expenditure Statement, the Balance Sheet and Movement in Reserves Statement.

The Council's financial position as reported in the balance sheet does not give us cause for concern relating to financial stability. Net current assets were £3.8m (£4.2m at end of previous year), with cash and cash equivalents increasing by £3.1m.

The most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability (being a deficit position) of £40.1m, down from £47.4m in the prior year. This reflects the £1.9m reduction in the estimated present value of the pension obligation and the £5.4m increase in the estimated Council's share of the Pension Fund assets. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities. The deficit position is not unusual and is a recognised area of longer term financial challenge for local authorities.

The Council's useable reserves totalled £28.6m at the end of 2021/22 (£29.1m at the end of the previous year), with:

- General Fund and Earmarked Reserves of £24.7m (£25.5m in previous year); and
- Capital Receipts and Grants Reserves of £3.9m (£3.6m in previous year).

These reserves provide some mitigation against future financial challenges, and include specific reserves (Finance Risks Reserve £1.8m, Investment for Growth Fund Reserve £7.1m and Business Rates Volatility Reserve £2.5m) to address future volatility and support investment plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps. Notwithstanding this, our work has not highlighted a risk of significant weakness in the Council's arrangements for ensuring financial sustainability.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Financial planning and monitoring arrangements

In March 2021 the Council set a balanced General Fund budget for the 2021/22 financial year whilst recognising the continuing uncertainty associated with the impact of Covid-19. During the year the Council reported its financial position through the quarterly financial performance reports and the Corporate Policy and Resources Committee maintained close oversight on performance. We reviewed a sample of reports presented for 2021/22, which contain detail on any significant variances to budget and budget revisions, use of earmarked reserves and updates on performance against savings targets. The reports also contain relevant information on progress against the approved capital programme.

The Council reported the final revenue outturn position for the 2021/22 year as a surplus of £0.7m, after approved £0.8m for carried forward budgets. We have considered the arrangements in place in respect of budget management as part of the Governance criteria on page 17 and not identified any significant weaknesses.

Arrangements for the identification, management and monitoring of funding gaps and savings

The Medium Term Financial Plan (MTFP) is a current plus four year plan which sets out the Council's commitment to provide services that meet the needs of people locally and that represent good value for money within the overall resources available to it. A key part of the strategy is to highlight the budget issues that will need to be addressed by the Council over the coming financial years, by forecasting the level of available resources from all sources and budget pressures relating to both capital and revenue spending as well as assessing sufficient reserves and provisions are held for past and unknown events which may impact on the Council's resources. The MTFP is prepared alongside other plans and strategies (for example the workforce planning and Capital and Investment Strategies). There is a process in place for challenging any growth items and agreeing the achievability of planned savings.

Arrangements and approach to 2022/23 financial planning

The arrangements for the 2022/23 budget setting process largely followed the arrangements in place for 2021/22.

A balanced General Fund budget for 2022/23 was approved at the March 2022 Council meeting with any required savings confidently expected to be covered by actions in hand, including the ongoing transformation work within the Together24 programme. There was an acknowledgement in preparing the MTFP that the roll over of the Local Government Funding Settlement meant that some of the expected changes from the Fair Funding Review and in relation to New Homes Bonus and any Business Rates reset were not enforced. Changes in these areas were regarded as a risk through expected loss of funding so their deferral represented a gain to the Council's immediate financial position. Alongside this the report highlights the challenging national economic position with pay and price inflation, particularly for fuel and utilities, already high and forecast to rise to increase to potentially record levels. These factors and the continuing uncertainty makes strategic financial planning difficult for Councils.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

The MTFP 2022-23 to 2026/27 forecast a balanced budget for 2022/23 but funding gaps for each of the years from 2023/24 onwards rising to £1.9m by 2026/27. To balance its budget the Council has, as described above, established reserves to support its planned transformation and savings process and to address volatility in funding and identified the need to invest in regeneration and growth to increase the underlying tax bases.

The Corporate Policy and Resources Committee reviewed the budget position in November 2022 as part of its Q2 budget monitoring process. The report identifies a forecast 2022/23 additional net contribution to reserves of around £0.2m, with the main variances to date reflecting increases in expenditure (staff pay award and fuel costs) and income (investment interest and planning fees) beyond those originally expected when the budget was set. The report sets out the budget risks going forwards (including the cumulative impact of the 2022/23 pay award, rising fuel costs and wider inflationary pressures), which reflect those being experienced across the sector, and the mitigations being put in place by management. The report also summarises progress against the capital programme and the steps being taken to rephase the profile of the projects to reflect the updated expected delivery timescale.

Based on the above considerations we are satisfied there are no significant weaknesses in the Council's arrangements in relation to financial sustainability.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks

Page 31

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an approved Risk Management Strategy which includes the Council's approach, guidance, the Council's risk appetite and roles and responsibilities. The Governance and Audit Committee receives regular reports on the Council's Strategic Risks and provides oversight on the risk management arrangements in place and the adequacy of the controls and proposed actions. These arrangements are consistent with what we would expect at a local authority and are adequate for the Council's purposes.

In order to provide assurance over the effective operation of internal controls the Council has engaged Assurance Lincolnshire to provide its internal audit service. Assurance Lincolnshire's Audit and Risk Manager acts as Head of Internal Audit and the service has been externally assessed as meeting the Public Sector Internal Audit Standards. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Governance and Audit Committee prior to final approval.

The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2021/22 and 2022/23 and confirmed they are consistent with the risk based approach.

Internal Audit progress reports are presented to Governance and Audit Committee meetings including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an Annual Report including an opinion on the Council's governance, risk and control framework based on the work completed during the year. For 2021/22 the Head of Internal Audit concluded that the Council's arrangements for Governance, Risk and Financial Control were 'performing well' (with no significant concerns identified that significantly affected the framework) and the Internal Controls arrangements 'performing adequately'. We have reviewed the Annual Report and are satisfied that the Head of Internal Audit's opinion does not indicate any significant weaknesses in the Council's governance arrangements.

The Council is part of the County Fraud Partnership, has an anti-fraud and corruption policy and a whistle blowing policy. The Council carries out proactive anti-fraud work, such as the regular Council Tax Single person discount reviews, and partakes in the bi-annual National Fraud Initiative. An annual fraud report is taken to Governance and Audit Committee. We have reviewed the Annual Fraud Report 2021/22 and have not identified any significant concerns with these arrangements.

Throughout the year we have attended Governance and Audit Committee meetings. Through attendance at these meetings we have confirmed that the committee receive regular updates on both internal audit progress and risk management in the form of risk registers. We have seen active Member engagement from the Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Arrangements for budget setting and budgetary control

The Council has an established set of governance arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the Budgetary and Policy Framework Procedure rules. The framework includes:

- Clear responsibilities, including the role of the Section 151 Officer in leading the budget setting process and providing professional advice, and the reservation of the approval of the Budget to the Council based on the Corporate Policy and Resources recommendation.
- Budget setting guidance to managers, with the process ensuring an early understanding of the key relevant factors and future budget requirements. Although existing budgets are in most cases used as a basis for determining the next year's estimates, they are not merely rolled forward. There is early challenge to, amongst other things, staff number assumptions and growth and savings proposals.
- Close working between the finance team and with external advisors and neighbouring councils to determine the key budget assumptions, which are challenged and agreed through the budget review process by Management, Corporate Policy and Resources Committee and Council.

Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team.

Budget monitoring reports are produced on a monthly basis and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts. There are rules in place regarding the reporting of budget variances and the requirement to operate within approved budgets. Towards the end of 2021/22 the Council implemented a new Enterprise Resource Planning system which will further strengthen the underlying financial management arrangements in future years.

There are similar processes and controls in place for development and control of the capital programme alongside the revenue budget setting. The Treasury Strategy reports (encompassing the Treasury Management and Capital Investment Strategies) are approved at the same time as the revenue budgets and monitored and reported on throughout the year.

There are the rules in place regarding virements within budget cost centres and adjustments to the original budget required by changes in Council policy must be approved by the relevant policy committee or by the Council. Quarterly Financial performance monitoring reports are presented to the Corporate Policy and Resources Committee. The reports cover spend and income to date and forecast against budget, Capital Programme progress and Treasury Management activities. and forecast significant variations are investigated and reported on, together with any corrective action being taken. Our review of the relevant meeting minutes confirmed there was challenge and scrutiny of the process and any material budget variances were identified and explained at an appropriate stage. The Committee approves and tracks the use of earmarked reserves throughout the year. There were no significant unexpected over or underspends reported at the year-end.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Decision making arrangements and control framework

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). We reviewed the AGS and considered the Governance and Audit Committee's review of the AGS and monitoring of actions throughout the year in relation to any significant governance issues.

The governance structure, as described in the AGS includes amongst other things the Constitution and the scheme of delegation which shows the levels of authority required for all key decisions. The AGS sets out the governance principles which the Council are committed to and within which the Council conducts its business and affairs. The AGS identifies the arrangements in place to enable the Council to meet the good governance principles identified.

The required Standards Committee arrangements are in place designed to promote and maintain high standards of conduct by members and co-opted Members of the District Council and of the Town and Parish Councils within the District. We have reviewed the Standards Sub-Committee's minutes in the year and not identified any matters of concern.

The Constitution is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council's aims of being transparent and accountable. The Constitution includes the Budget and Policy Framework Procedure Rules, Financial Procedure Rules and Contract and Procurement Procedure Rules and the Members' code of conduct.

There are Overview and Scrutiny Committee arrangements in place to support the work of the other Committees and the Council as a whole. The Overview and Scrutiny Committee has a work programme in place to steer their coverage of services and policy decisions taken. The Constitution includes the Overview and Scrutiny Committee procedure rules, which cover the arrangements for call in of decisions. We have reviewed the Overview and Scrutiny Committee's minutes throughout the year and not identified any concerns.

Regulators

There are few external regulators for district councils and we have not identified any matters reported which indicate significant weaknesses in the Council's governance arrangements. We reviewed the Local Government and Social Care Ombudsman's (LGSCO) 2021/22 report which was considered by the Governance and Audit Committee at its October 2022 meeting. The Committee report summarised management's response to the matters raised by LGSCO and included comparative information for similar councils.

Based on the above considerations we are satisfied there are no significant weaknesses in the Council's arrangements in relation to governance.

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Performance Management

The 2019-23 Corporate Plan sets out the Council's strategic aims and objectives, and key intended outcomes for the Plan's four years. The Council has identified the key performance indicators, and target levels of performance, in relation to these priorities. The performance targets are informed by national standards, local benchmarking and experience and subject to initial challenge and confirmation.

The Council has in place a performance management framework which includes identified responsibilities of managers and processes for regular performance reporting and corrective action if required. There is quarterly reporting to the Prosperous Communities and Corporate Policy and Resources Committees. These quarterly reports identify whether the performance is on/off track and its direction of travel. They include appropriate commentary to explain any significant factors which are affecting performance and actions being taken to correct performance.

On an annual basis, the Council's overall performance is summarised in the Narrative Report as part of the Statement of Accounts. This outlines the Council's progress against its ambitions, highlighting key successes and risk areas. The Narrative Report also includes an agreed plan for subsequent years, including any areas for improvement. This provides the public with an overall assessment of the Council activities for the financial year

We reviewed a sample of the detailed performance reports and reviewed the Prosperous Communities and Corporate Policy and Resources Committees' minutes which demonstrate the Committees' review and challenge of the quarterly reports. The quarterly reports demonstrate that performance has been managed throughout 2021/22 and any significant variances have been justified, with no major unexpected gaps in performance at the year end. The process has continued into 2022/23, with the process now including formal Performance Improvement Plan reporting where performance is below target for two consecutive quarters or more. Overall, we believe there is sufficient evidence to demonstrate adequate arrangements for performance monitoring and management at the Council.

Partnerships

There are a number of significant partnership arrangements in place and some key support services (for example payroll, ICT and Business Rates collection) are provided through agreements with neighbouring councils. There are relevant governance frameworks in place for these partnership arrangements and the Council continues to keep its role in these activities under review.

The Council is 100% shareholder of a group of companies. The group is made up of a holding company, an acquired limited company providing temporary staff and a 'Teckal' company that provides services solely to the Council. The Council's transactions with these companies are properly disclosed in the financial statements and there are relevant governance arrangements in place. The turnover of these companies is not material.

The Council has also, since 2016/17, been party to a joint venture - Market Street Renewal Limited. The company was primarily set up for the development and renovation of Market Street in Gainsborough. The Council's total investment in this venture at the end of 2021/22 was around £0.34m. There is a governance and performance management framework in place for this arrangement.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

Commercial investments

The Council has a significant Investment Property portfolio, valued at 31 March 2022 at £21.7m. There is an underlying strategy and appropriate framework for approving and managing these investments, including regular monitoring of performance against target returns.

The majority of the portfolio has been funded through borrowing. Local authorities are required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements. The amount to be set aside each year (the Minimum Revenue Provision) has not been prescribed although an overarching principle of prudency is expected to be adopted. The Council has not committed to set aside a MRP for commercial investment properties where the asset was expected to be held for a set period, at the end of which a capital receipt was expected to be realised and funds available to repay borrowing. The policy stated that the Council may chose to make a voluntary revenue provision and a payment was made in 2021/22 equivalent to the amount expected in the centrally issued MRP Statutory Guidance.

In our 2021/22 Audit Completion Report we reported that we had again challenged management regarding their justification for the policy in the context of the MRP Statutory Guidance and were satisfied that the financial statements were not materially misstated. We also note that in the approved 2022/23 Capital Investment Strategy the Council has adopted a MRP policy in line with the Statutory Guidance which includes a requirement for an annual charge to be made for borrowing undertaken to finance commercial investment properties.

Procurement

The Council has Contract and Procurement Procedure Rules in place which outlines how the procurement of goods, works and services is achieved. These documents take into account latest legislative and operational changes at the Council, and provide a corporate framework for the procurement of goods, works and services. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability. The Council worked through the Lincolnshire Procurement Partnership which provided access to specialist procurement services and savings and has its own specialist procurement staff. The Council has specific arrangements through standing financial instructions and purchase order controls and our work on the financial statements has not identified any significant internal control deficiencies in these areas.

Based on the above considerations we are satisfied there are not significant weaknesses in the Council's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum and Audit Completion Report presented to the Governance and Audit Committee in March and November 2022 respectively. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows.

Area of work	2021/22 fees	2020/21 fees
Scale fee in respect of our work under the Code of Audit Practice	£33,420	£33,420
Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme	£7,067*	£7,067
Additional testing as a result of the implementation of new auditing standards	£2,000*	£2,000
Additional work as a result of the new Code of Audit Practice and VFM reporting	£8,000*	£8,000
Additional work arising from the changes to the Council's core accounting systems	£3,000*	-
Total fees	**£53,487**	**£50,487**

* Fee variations subject to approval and confirmation by Public Sector Appointments Ltd.

Fees for other work

We confirm that we undertook the following non-audit service for the Council in the year.

Certification of the 2020/21 Housing Benefit Subsidy Claim £6,000

Mark Dalton, Director – Public Services

mark.dalton@mazars.co.uk

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*where permitted under applicable country laws.

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Agenda Item 6b

Governance and Audit Committee	
Tuesday, 24 January 2023	

Subject: Internal Audit Quarter 3 Progress Report 2022/2023

Report by:	Alastair Simson – Principal Auditor – Audit & Risk Management – Lincolnshire County Council
Contact Officer:	Emma Redwood Assistant Director of People and Democratic Services emma.redwood@west-lindsey.gov.uk
Purpose / Summary:	The report gives members an update of progress, by the Audit partner, during the Period October 2022 to December 2022, against the 2022/2023 annual programme agreed by the Governance and Audit Committee in April 2022. The report also raises matters that may be relevant to the Audit Committee role.

RECOMMENDATION(S):

That Members consider the content of the report and identify any actions required.

IMPLICATIONS

Legal: None directly arising from this report. **(N.B.) Where there are legal implications the report MUST be seen by the MO**

Financial: FIN/130/23 There are no financial implications arising from this report.

Staffing: None directly arising from this report. **(N.B.) Where there are staffing implications the report MUST have a HR Ref**

Equality and Diversity including Human Rights : None directly arising from this report.

Data Protection Implications: None directly arising from this report.

Climate Related Risks and Opportunities: None directly arising from this report.

Section 17 Crime and Disorder Considerations: None directly arising from this report.

Health Implications: None directly arising from this report.

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

Risk Assessment :
N/A

Call in and Urgency:

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

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

Key Decision:

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

Internal Audit

Progress Report

West Lindsey District Council December 2022

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West Lindsey
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Contents

Lucy Pledge - Head of Internal Audit & Risk Management
lucy.pledge@lincolnshire.gov.uk

Alastair Simson – Principal Auditor
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Introduction

The purpose of this report is to:

- Provide details of the audit work during the period October 2022 to December 2022
- Advise on progress of the 2022/23 plan
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

Audit Plan

During the period we have completed 2 assurance audits and have 7 further audits in progress.

The audits which have been completed are:

- Contract Management – Substantial Assurance
- Housing Benefit Subsidy – No issues identified

The audits at draft report are:

- Levelling Up Fund phase 1 – Indicative opinion High Assurance
- Staff Resilience – Indicative opinion High Assurance
- ICT Patch Management – Indicative opinion High Assurance
- Risk Management – Indicative opinion Substantial Assurance

The audits in progress are:

- Combined Assurance - Fieldwork
- ICT Patch Management – Fieldwork
- CRM System – Terms of Reference agreed, work to start in February 2023

0
HIGH ASSURANCE

1
SUBSTANTIAL ASSURANCE

0
LIMITED ASSURANCE

0
LOW ASSURANCE

1
OTHER REPORTS

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

Substantial Assurance

Contract Management

Contract management is the process of systematically and efficiently managing contract creation, execution, and analysis for the purpose of maximising financial and operational performance and minimising risk. It includes negotiating the terms and conditions in contracts and ensuring compliance with these terms and conditions, as well as documenting and agreeing any changes or amendments that may arise during its implementation or execution.

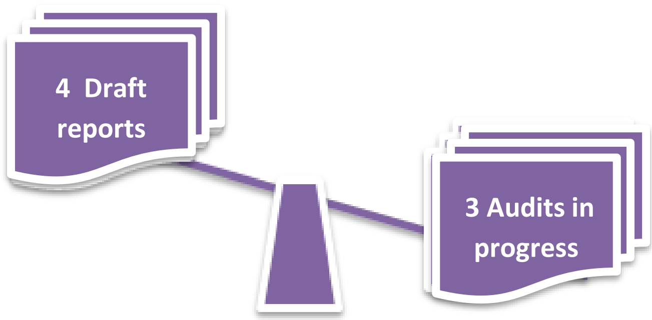
Overall, we can provide a substantial level of assurance that effective arrangements are in place to ensure contracts are recorded, allocated to contract managers, and managed effectively.

Good practice identified includes:

- The test sample contracts were appropriately signed and included clear and detailed terms and conditions, including specific information on performance management.
- Contract Managers assigned responsibility for contracts are appropriate, with managers involved from the procurement stage to ensure maximum value in the process.
- There is evidence of engagement with contractors to monitor performance at the intervals specified.

However we did find that the Council's Contract and Procurement Procedure Rules (CPPRs) are not prescriptive on the expectations of contract management and so recommendations have been made to produce supplementary guidance and to offer training to ensure awareness and understanding among contract managers.
We also identified some other recommendations including risk management requirements for contracts are not specified in CPPR or the Council's Risk Management Strategy as well as general improvements which all contract managers should be made aware of to ensure that contract terms are complied with.

All recommendations have been agreed and will be tracked.



We have 4 audits at draft report stage:

- Levelling Up Fund phase 1 – Indicative opinion High Assurance
- Staff Resilience – Indicative opinion High Assurance
- ICT Patch Management – Indicative opinion High Assurance
- Risk Management – Indicative opinion Substantial Assurance

Work in Progress

We have the following audits at fieldwork stage:

- Combined Assurance - Fieldwork
- ICT Asset Management Hardware – Fieldwork
- CRM System – Terms of Reference agreed, work to start in February 2023

Other Significant Work

Housing Benefit Subsidy

As part of the work undertaken to support the subsidy claim, we examined twenty-eight cases in respect of payments made in the 2021/22 financial year. Two errors were identified, both of which related to payments in respect of temporary accommodation – an underpayment of £13.99 and an underclaim of subsidy of £47.04. We have not made any formal recommendations within this report as the errors themselves are not systemic.

Tracker update

The audit tracker report identified that there were 16 actions due for completion by the 31st December 2022. There were no High Priority actions. Following review and discussions with Managers we identified that 14 of the 16 Medium Priority actions had been completed (88%). Details of the two outstanding actions can be found in Appendix 2.

Combined Assurance

We will be working with Management to produce the Combined Assurance review. This annual process involves discussion and intelligence gathering across the Council, and will provide Members and Management with an overview of the Councils assurance across Critical Activities, Key Projects, Key Partnerships and Key Risks. This work has been delayed to December/January although the report is still planned to be presented at the March Committee by Officers. This will support the Head of Internal Audit's Annual Governance Statement and the 2023/24 Audit Plan.

Increasing Capacity

We have had a recruitment exercise which has led to the successful recruitment of an Audit Manager, two Audit Principals and two Senior Auditors. All these roles will further enhance and develop the services quality, performance, capacity and capability to meet client needs and remain an effective forward-thinking service.

We are developing a number of our existing Senior Auditors and Audit Officers through the apprenticeship scheme which is paying dividends. We are also working with our Finance colleagues and engaging with the Local Government national graduate scheme. WLDC has asked to work with the County Council – promoting a career in local authority finance and audit.

As you're aware Lucy Pledge will be leaving Assurance Lincolnshire will be leaving on the Council on the 30th March 2023. She will be retiring from the role a Head of Audit and Risk Management having helped build the Assurance Lincolnshire partnership into the success it is today.

Following a successful recruitment process, we are delighted to confirm that Claire Goodenough has been appointed as Head of Audit and Risk Management at the County Council – heading up the Assurance Lincolnshire Partnership. Claire has a good background of working within the public sector at a senior level and with the Institute of Internal Audit. Claire is looking forward to joining the team and will be starting with us on the 23 January, to enable a detailed handover, which will incorporate meeting with our clients over the coming months.

We hope you will all join us in welcoming Claire when she begins her Assurance Lincolnshire journey this month.

Joint working – Flood Management

At the Committee’s meeting on the 21st October 2022 concerns were raised that a planned audit at the County Council on Flood Management had been postponed. The Chairman of the Governance & Audit Committee wrote to the Chairman of the County Council’s Audit Committee on the 28th November 2022 asking for this to be re-considered. A response was provided confirming that the audit was rescheduled due to a restructure within the LCC service area. This audit is planned to be undertaken during April-June 2023.

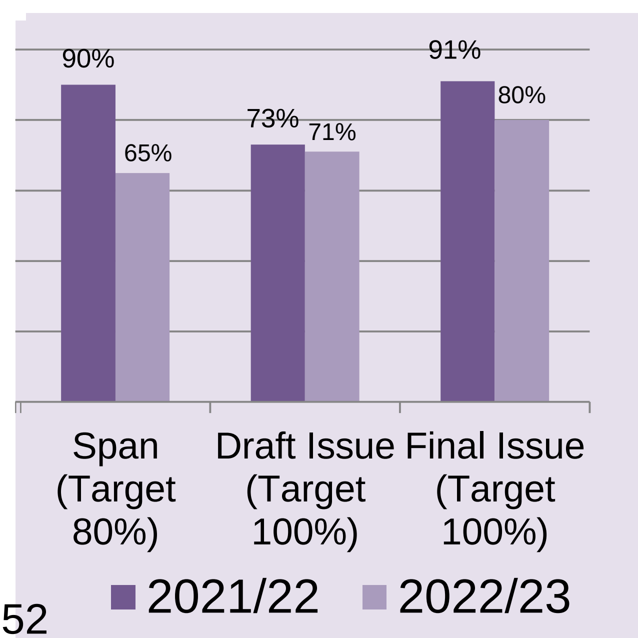
Benchmarking

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

Performance on Key Indicators

Positive feedback has been received

Plan completed: 71%



Consulting the Governance & Audit Committee

We are about to commence developing the Internal Audit Plan – 2023/24.

To help inform our plan we would like to engage with the Governance and Audit Committee early in the process. This helps us identify any **significant** areas of risk and / or concern Committee wish to be considered.

Our approach

Understanding the Council's business, risk profile and assurance framework is vital in our planning process. We aim to align our work with other assurance functions, particularly performance and risk management, and look at different ways of leveraging assurance to maximise the best use of the Internal Audit resource and other assurance functions of the Council.

At the heart of the strategy is the Council's **'Assurance Map'**. This helps focus our work plans on risks that matter – the make-or-break risks that affect the successful delivery of services and strategic objectives. It also recognises the importance of critical business systems that support successful delivery and 'protect the business' – core activities.

There also needs to be sufficient coverage so the Head of Internal Audit can provide their statutory opinion.

We are about to start working with management to develop the Council's assurance map.

Potential Areas

There are some areas that we have already identified to be considered:

- Financial Governance – Providing assurance that key financial controls are in place and operating effectively
- Project Assurance – Providing assurance on a key project and the successful delivery (on-time – within budget – deliverables achieved and benefits realised)

We would welcome further suggestions from Management Team and Governance & Audit Committee. These will be risk assessed along with the outcomes from the Assurance Mapping work and our Annual Plan will be developed from this.

Other Matters of Interest

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

CIPFA Guidance for Audit Committees – updated October 2022

This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement.

It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee's development.

We will be looking to provide the Committee with training in the new financial year which will include providing the Committee with the key headlines of the guidance and benchmark current arrangements with this new best practice guidance.

https://www.cipfa.org/services/support-for-audit-committees

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.

Audit Actions

The audit tracker report identified that there were 16 actions due for completion by the 31st December 2022. These comprised of:

- 0 High Priority actions
- 16 Medium Priority actions

Following review and discussions with Managers we identified that:

- 14 of the 16 Medium Priority actions had been completed (88%)

Please find below details of the outstanding actions along with reasoning as to why they are not fully complete along with a new proposed target date. These will be tracked in future progress reports.

Outstanding Actions

Audit Title	Issued	Assurance	Total Recs	Recs imp	Priority of overdue recs	Recs not due
Key Control Testing 2021/22	August 2022	Substantial	5	2	2 Medium	1
One finding relates to procedure manuals for the new system. Some procedure notes have been put together, however a review is currently underway to ascertain what is missing and then these will be compiled by the relevant staff member. To be completed by the end of August 2023. The other finding relates to management dashboards with the new system. Dashboards will be rolled out but this has not been achieved yet due to resources being directed towards snagging issues with the basic operation of the system. Once resolved this will mean resources can be dedicated to achieving this action. To be completed by the end of December 2023.						

Appendix 3 2022/23 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Value For Money	To provide assurance that the Council takes all reasonable steps to achieve Value for Money in the delivery of its services.	20/04/22	20/04/22	19/08/22	High Assurance
Flood Management	To provide assurance that adequate arrangements are in place between the council and the LLFA to both prevent and respond to flooding	11/05/22	11/05/22	23/08/22	High Assurance
ICT Helpdesk	This follow-up review provides assurance that the actions agreed in the previous ICT Helpdesk audit have been satisfactorily implemented and an improved control environment now exists.	01/03/22	01/03/22	10/06/22	Substantial Assurance
ICT Disaster Recovery	To provide assurance that back-ups are robust, working effectively and that disaster recovery arrangements are in place and also periodically tested.	09/02/22	09/02/22	22/08/22	Substantial Assurance
ICT Cloud Services	Review of several cloud hosted solutions to ascertain the level of due diligence undertaken of selected providers and the adequacy of security arrangements in place.	06/05/22	06/05/22	22/08/22	Substantial Assurance
Key Control and ERP	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment. To include coverage on the ERP system.	05/05/22	05/05/22	22/08/22	Substantial Assurance
Staff Resilience	Review looking at measures that WLDC have in place to manage and support staff including supervision, home workplace assessments and support mechanisms.	16/08/22	16/08/22		Draft Report – Indicative opinion High Assurance
Key Project: CRM System	Consultancy to advise and support on new system controls.	06/02/22			

Appendix 3 2022/23 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Wellbeing Lincs Service	Review of delivery and effectiveness of the Council's elements of the wellbeing contract.	TBC			
Contract Management	Assurance that the contract management process within WLDC is operating as planned and in line with policy.	12/07/22	12/07/22	21/12/22	Substantial Assurance
Governance, Risk and Resilience Framework	Health check of WLDC against the 7 governance characteristics within the Centre of Governance and Scrutiny's Governance, Risk and Resilience Framework	23/01/23			
Risk Management	Review of the risk management monitoring procedures in place at WLDC.	21/11/22	21/11/22		Draft Report – Indicative opinion Substantial Assurance
Levelling Up Fund	Assurance over the management, decision making and governance of the £10 million Levelling Up Fund received from the Government. This work will cover two phases in 22/23 – the set up process followed by a final review.	14/08/22	14/08/22		Draft Report – Indicative opinion High Assurance
ICT Patch Management	The review will focus on the patching of software used by Council, and the firmware used in its infrastructure, is kept up to date and safe against known exploits.	06/12/22	06/12/22		Draft Report – Indicative opinion High Assurance
ICT Asset Management Hardware	To achieve value for money, and full use from the hardware in use it is important that all ICT hardware assets are tracked and managed appropriately. This is increasingly important where staff and equipment are no longer stationery and working from home has become a necessity in response to Covid-19.	19/12/22	19/12/22		Fieldwork stage

Appendix 3 2022/23 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment. Terms of Reference which include scope and focus on key risks will be determined with the appropriate senior manager. Planned areas include: • Council tax debtors • HB overpayment debtors • NNDR debtors • Budget monitoring • Income	06/02/23			
Follow Ups	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.	TBC			

Governance and Audit Committee	
Tuesday 24 January 2023	

Subject: Draft Treasury Management Strategy 2023/24

Report by:	Director of Corporate Services (Section 151 Officer)
Contact Officer:	Peter Davy Financial Services Manager peter.davy@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 2023/24 and recommend to the 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 Director of Corporate Services (Section 151 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, the Prudential Code 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/129/23/PD

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:

Prudential Code for Capital Finance in Local Authorities 2021

Treasury Management Code of Practice and Cross-Sectorial Guidance Notes 2021

Treasury Management in Public Services: Guidance Notes 2021

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. A statutory over-ride is currently in place which is due to end on 31st March 2023. The government is currently consulting on options after this date.

Risks associated with investing for longer periods, and in instruments/assets 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**	**x**

Key Decision:

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

Yes	x	**No**	

Executive Summary

1.1 The Council is required to approve a Treasury Management Strategy Statement for 2023/24 before 1 April 2023. 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 attached for this purpose. In addition the Capital Investment Strategy, which has direct links to the Treasury Management Strategy is also provided for scrutiny.

1.2 The Council is required by statutory provision and regulation to 'have regard to' the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003

1.3 An updated Prudential Code was published in December 2021 and applied with immediate effect, except that authorities may defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The general ongoing principles of the revised Prudential Code, including the requirement in paragraph 51 that an authority must not borrow to invest primarily for financial return, applied with immediate effect.

1.4 By using the Prudential Code Framework, the Council ensures that the following objectives are met: -

- capital expenditure plans and investment plans are affordable and proportionate
- all external borrowing and other long-term liabilities are within prudent and sustainable levels
- the risks associated with investments for commercial purposes are proportionate to their financial capacity, and
- treasury management decisions are taken in accordance with good professional practice.

The Borrowing Strategy

1.5 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 2021 now precludes the use of any type of borrowing for primarily for a financial return (including internal borrowing) for this purpose. The Borrowing Strategy therefore no longer includes borrowing for this purpose.

However, borrowing is allowable to enable the effective management of the Property Portfolio.

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 and/or income.
- All external debt undertaken will be repaid at loan maturity

The Investment Strategy

1.6 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.

1.7 The Council has a Climate Change strategy. As the Council will be interested in undertaking actions to reduce climate change, the Council as an ethical investor will consider the environmental, social and governance issues (ESG) when making treasury investment decisions.

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

1.8 Consideration of ESG will be undertaken when considering new investment opportunities and will be in accordance with our counterparty limits and rating criteria.

The Minimum Revenue Provision Policy (MRP)

1.9 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 Commercial Investment.

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
- Where the Council has previously borrowed for the acquisition of Investment Properties the Asset Life Method will be used to calculate the MRP charge applicable on an annual basis.

Commercial Investments (Property Portfolio)

1.10 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.

1.11 The transactional costs of acquisition of these properties have been capitalised. Investment Properties will be revalued annually as at the Balance Sheet date.

1.12 The Council intend 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. Our previous approach was that, on an annual basis, a Voluntary Revenue Provision (VRP) would be considered, this enables any overpayment to be recovered. However, guidance and good practice no longer allow this so, as already stated, there will now be an annual MRP charge provided.

1.13 MRP Overpayments – The current DLUHC MRP Guidance allows 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.

1.14 Up until the 31 March 2022 the total Voluntary Revenue Provision (VRP) overpayments have been £1,081k however this relates to payments to reduce prudential borrowing against the Commercial Investments Property Portfolio and is therefore not deemed an overpayment.

1.15 To mitigate the risk of loss of the capital receipt not meeting outstanding debt, a Valuation Volatility Reserve had been created and a minimum balance of 5% of acquisition price set. It is intended that this reserve will be reduced over the medium term to reflect the implementation of an annual MRP.

1.16 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. Expert and legal advice will always be sought to ensure that any additional purchases, or replacement purchases are within our powers.

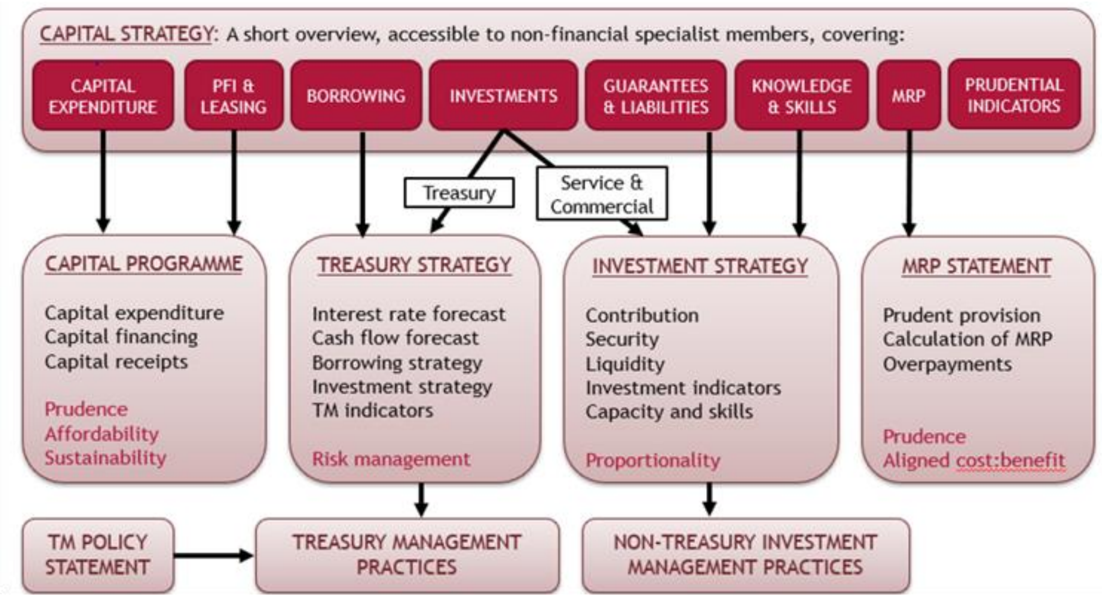
1.17 The Treasury Management Strategy including the Borrowing Strategy, Investment Strategy and Minimum Revenue Provision Policy are detailed below.

1.18 The Capital Investment Strategy is attached at Appendix A 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.

1.19 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.

1.20 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.



1.21 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 MANAGEMENT STRATEGY
Minimum Revenue Provision Policy and Annual Investment Strategy 2023/24

INDEX

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 Council's Corporate Plan identifies the Corporate Objectives of the Council, and which then informs capital investment requirements. The 2023/24 to 2027/28 Capital Programme includes 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 2021 Prudential and Treasury Management Codes require all Local Authorities to prepare a capital investment 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 members of the Governance and Audit Committee understand the overall long-term policy objectives and resulting capital investment strategy requirements, governance procedures and risk appetite.

This capital investment 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 investment strategy shows:

- 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 DLUHC 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 investment 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 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues

- The capital expenditure plans and the associated prudential indicators.
- The Asset Management Plan
- 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, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC 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 19th January 2023. Further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Link Asset Services 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 2023/24 – 2025/26

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 and Financing

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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Our People	1.096	3.660	0.924	1.665	0.675
Our Place	6.167	3.864	15.403	5.279	0.554
Our Council	0.550	0.400	1.228	0.291	0.092
Investment*	0.000	0.000	3.000	0.000	0.000
Total	**7.813**	**7.924**	**20.555**	**7.235**	**1.321**

*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 i.e., 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	0.441	1.180	3.350	0.010	0.000
External Grants	1.087	4.004	12.915	5.512	0.675
S106	0.033	1.258	0.204	0.750	0
Earmarked Reserves	0	1.382	3.943	0.963	0.646
Revenue Resources	3.478	0	0	0	0

Net borrowing need for the year	**2.774**	**0.100**	**0.143**	**0**	**0**
Total Financing	**7.813**	**7.924**	**20.555**	**7.235**	**1.321**

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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Expenditure	0	0	3.000	0	0
Financing Costs	0	0	3.000	0	0
Net borrowing need for the year	**0**	**0**	**0.143**	**0**	**0**
Percentage of total net financing need %	**0**	**0**	**0**	**0**	**0**

The Council will need to manage their Commercial Property Portfolio effectively and as such a £3m Capital Budget is proposed, to support the replacement of one of the properties (should it be sold) subject to the annual review of the portfolio.

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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund Balance	5.406	3.997	4.176	4.123	4.003
Earmarked Reserves	19.214	18.279	14.486	13.883	13.771
Total Revenue Reserves	**24.620**	**22.276**	**18.662**	**18.006**	**17.774**
Capital receipts	1.472	0.428	0.181	0.271	0.391
Capital Grants Unapplied	2.516	0.000	0.000	0.000	0.000
Total Capital Reserves	**3.988**	**0.428**	**0.181**	**0.271**	**0.391**
Total Useable Reserves	**28.608**	**22.704**	**18.843**	**18.277**	**18.165**

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 it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g., finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement					
Accounting Ad	1.065	1.065	1.065	1.065	1.065
Finance Leases					
Prudential Borrowing	39.240	38.026	37.256	36.336	35.416
Total CFR	**40.305**	**39.091**	**38.321**	**37.401**	**36.481**
Of which: Commercial Investment Property	20.585	20.211	19.837	19.463	19.089
Movement in CFR	**1.770**	**-1.214**	**-0.770**	**-0.920**	**-0.920**
Movement in CFR represented by					
Net borrowing need for the year (above)	2.774	0.100	0.143	0.000	0.000
Less MRP and other financing movements	-0.823	-0.906	-0.906	-0.913	-0.913
Capital Receipts from Loan Principal repaid	-0.181	-0.408	-0.007	-0.007	-0.007
Movement in CFR	**1.770**	**-1.214**	**-0.770**	**-0.920**	**-0.920**

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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
CFR	40.305	39.091	38.321	37.401	36.481
Less Leases	0	0	0	0	0
Borrowing CFR	**40.305**	**39.091**	**38.321**	**37.401**	**36.481**
Less Borrowing	21.500	21.500	26.500	31.500	31.500
Over (-)/Under Borrowing	**18.805**	**17.591**	**11.821**	**5.901**	**4.981**
General Fund Balance	-5.406	-3.997	-4.176	-4.123	-4.003
Earmarked Reserves	-19.214	-18.279	-14.486	-13.883	-13.771
Capital receipts	-1.472	-0.428	-0.181	-0.271	-0.391
Capital Grants Unapplied	-2.516	0.000	0.000	0.000	0.000
Provisions	-0.802	-0.900	-1.000	-1.100	-1.200
Working capital*	-10.162	-2.169	-0.636	-0.636	-0.636
TOTAL FUND	**-39.572**	**-25.773**	**-20.479**	**-20.013**	**-20.001**
Expected investments (-) /Borrowing	**-20.767**	**-8.182**	**-8.658**	**-14.112**	**-15.020**

*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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt					
Debt on 1 April	20.000	21.500	21.500	26.500	31.500
Expected change in Debt	1.500	0	5.000	5.000	0.000
Gross external debt on 31 March	**21.500**	**21.500**	**26.500**	**31.500**	**31.500**
Internal Borrowing (on 31 March)	18.805	17.591	11.821	5.901	4.981

The Capital Financing Requirement	40.305	39.091	38.321	37.401	36.481
Internal Borrowing %	46.7	45.0	30.8	15.8	13.7

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 2023/24 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 Director of Corporate Services (S151 Officer) 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 Liability Benchmark

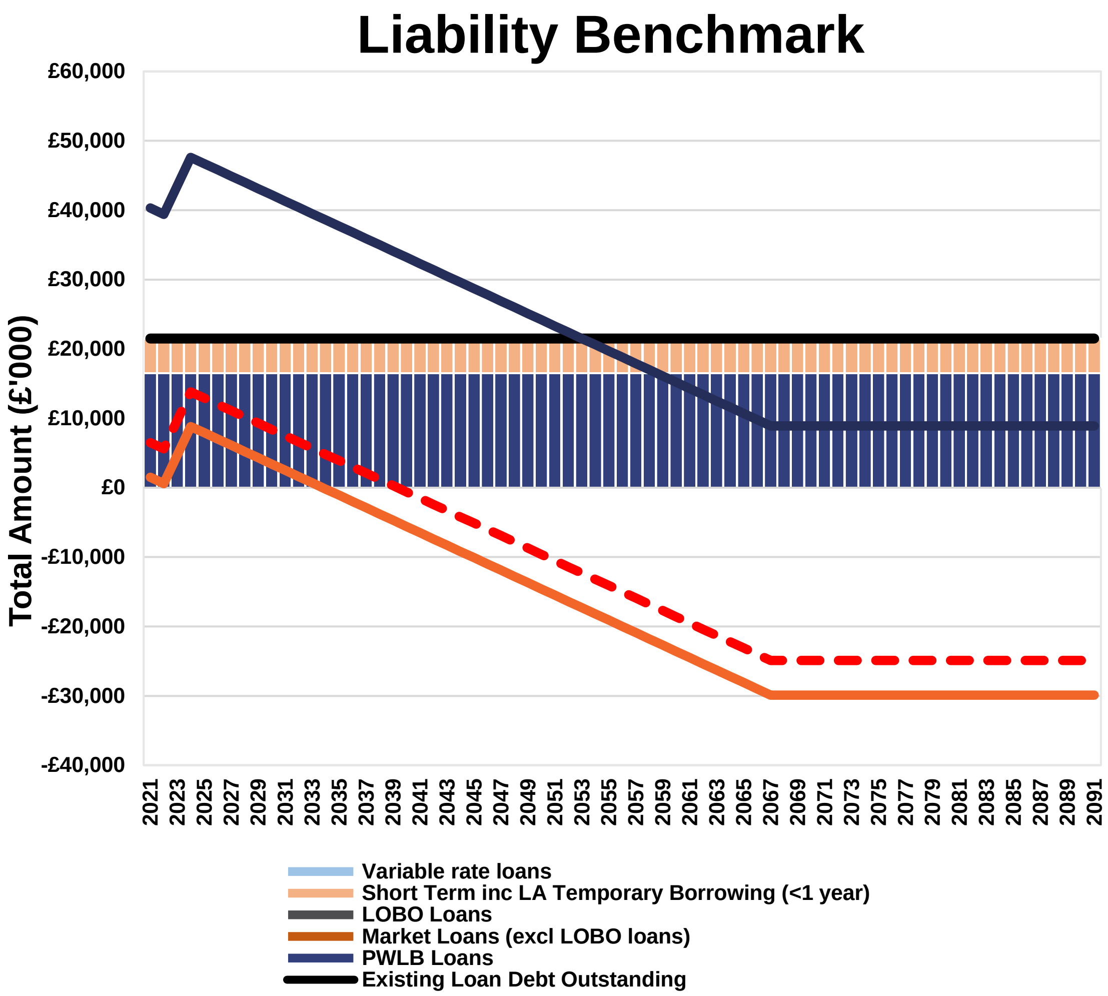
To Compare the Council's actual borrowing against an alternative strategy, a Liability Benchmark has been calculated showing the lowest risk level of borrowing. This is a new prudential indicator and is made up of four components:

1. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

2. Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

3. Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



3.4 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	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt	21.500	26.500	31.500	31.500
Operational Boundary	**39.091**	**38.321**	**37.401**	**36.481**

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	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Gross Debt*	21.500	26.500	31.500	31.500
Authorised Limit	**44.000**	**43.000**	**42.000**	**41.000**

*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.

3.5 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 19th December 2022. These are forecasts for certainty rates (gilt yields plus 80 bps).

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

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

The central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in 2023.

PWLB RATES

Yield curve movements have become less volatile under the current government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than are currently anticipated.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- 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 and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- **The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields consequently.

- **Borrowing for capital expenditure.** Link's long-term (beyond 10 years), forecast for Bank Rate is 2.5%. As all PWLB certainty rates are currently above this level, therefore the Council will need to review its borrowing strategy periodically to ensure that it achieves the right balance between length of loan and interest rate payable.

- 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.

3.6 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 2023/24 treasury operations. The Director of Corporate Services (S151 Officer) 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.

3.7 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.

3.8 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.

3.9 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 forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.10 Approved sources of Long- and Short-Term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Local Temporary	●	●
Local Bonds	●	
Overdraft (Notified in Advance)		●
Internal (capital receipts & revenue balances)	●	●
Finance Leases	●	●

ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

The Department of Levelling Up, Housing and Communities (DLUHC – formerly the Ministry of Housing, Communities and Local Government (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:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code").
- CIPFA Treasury Management Guidance Notes 2021

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 maintain a degree of liquidity to cover cash flow needs but to also consider 'laddering' investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

The above guidance from the DLUHC 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 2022/23 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, MHCLG (now DLUHC), 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. At the current time the government is considering options as to what happens after this date.

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 Director of Corporate Services (S151 Officer) 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:
  1. are UK banks; and/or
  2. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA

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

  1. Short Term – F1
  2. 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 meet the ratings for banks outlined above.
- Money Market Funds (MMFs) CNAV – *AAA*
- Money Market Funds (MMFs standard) LNVAV – *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 rely 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				**£5m maximum exposure**	**5 years**

principal if held to maturity					
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) **Country limit.** 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). Greater returns are usually obtainable by investing periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- 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.

The current forecast shown in paragraph 3.5, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

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: -

Average earnings in each year	
2022/23	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

- The overall balance of risks to economic growth in the UK is now to the downside, the Bank of England projected two years of negative growth in their November 2022 Quarterly Monetary Policy Report.

- It is now expected that there will be more increases in the Bank Rate than was originally forecast for 2022/23 as the MPC is currently more heavily focused on combating inflation than on protecting economic growth.

- PWLB certainty rates have risen during 2022/23. Financial markets have now built in most of the expected increases in Bank Rate into shorter dated gilt yields, whilst heightened inflation concerns have impacted the medium to long parts of the maturity curve.

Money market funds (MMFs), yields have now begun to rise across a number of market operators. This mirrors rises in the Bank Rate but because of continuing investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, at a more modest rate.

CCLA Property Fund Issues

The Property Fund has increased its redemption period to six months whereas previously it has been 90-day notice period for redemptions which will have to be taken into account when assessing the Council's cashflow forecasting.

The income from the fund still remains attractive in this period of rising interest rates.

Ethical Investing

The Council continues to develop 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 will consider the environmental, social and governance issues (ESG) when making treasury investment decisions.

Investments will be in accordance with counterparty and creditworthiness (as detailed at 4.2

Treasury Investment Portfolio

The Council is expecting to have an average investment portfolio of £13m throughout 2023/24 and expects to receive investment income totalling £0.578m as shown below:

Treasury Investment Portfolio	Average Portfolio £m	Interest Rate %	Interest £m
Liquidity Investments	10.00	4.44	0.444
Long Term Investments	3.00	4.45	0.134
Total Investment Income (2023/2024)	**13.00**	**4.45**	**0.578**

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	**2023/24**	**2024/25**	**2025/26**
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 Sterling Overnight Index Average (SONIA) compounded rate

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

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

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

4.6 End of Year Investment Report

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

4.7 Non-Treasury Investments (Commercial Property)

The Council has invested £21.666m (£30m budget approved) in creating a Commercial Property Portfolio, to generate a revenue return to support the future sustainability of the Council and therefore protecting the services as government funding was reduced. 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 £20.500m having been spent on these acquisitions (excludes costs) to date and the gross return for 2022/23 is estimated to be 7.17%. After taking account of management and financing costs (including MRP) a return of around 3.00% is being achieved.

It is no longer anticipated that additional assets will be acquired. However, the portfolio will be managed within the current values and replacement properties acquired if existing properties are sold ensuring income levels are maintained.

The Council has a Commercial Contingency Budget of £0.2m to mitigate the risk of rental losses, and a Valuation Volatility Reserve to mitigate the risk of capital loss on disposal.

In addition, the Council has set aside £1.084m as a Valuation Volatility Reserve, this reflects 5% of the purchase price. However, now that MRP will be charged annually, thus reducing outstanding borrowing, the Reserve will be reduced over the Medium-Term Financial Plan.

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.

However, any future additional property investments can no longer be funded from borrowing, and our own resources must be utilised to fund any acquisitions. Currently there is no expectation that any additional properties will be acquired.

The strategy included.

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.

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 Director of Corporate Services (Section151 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 Commercial Income as a Percentage of Net Revenue Expenditure

The Council receives income from investment properties which contribute towards achieving a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet service delivery objectives is dependent on achieving income from these properties over the Medium-Term Financial Plan period.

%	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Net Revenue Expenditure £m	15.714	16.293	16.592	17.009	17.529
Commercial Income £m	1.578	1.578	1.577	1.616	1.706
Ratio	**10.04%**	**9.69%**	**9.50%**	**9.50%**	**9.73%**

4.9 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 2023/24 – 2025/26 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Our People	1.096	3.660	0.924	1.665	0.675
Our Place	6.167	3.864	15.403	5.279	0.554
Our Council	0.550	0.400	1.228	0.291	0.092
Investment*	0.000	0.000	3.000	0.000	0.000
Total	**7.813**	**7.924**	**20.555**	**7.235**	**1.321**

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).

DLUHC 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 previously borrowed for the acquisition of Commercial Investment Properties the Asset Life Method will be used to calculate the MRP charge applicable on an annual basis.

- **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. A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), 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 31 March 2022 the total VRP overpayments were £1,081k however, as there has been a change in our Policy to charge MRP on Commercial Investment assets, then this VRP will not be deemed an overpayment.

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) against the net revenue stream.

%	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Net Revenue Expenditure £m	**15.714**	**16.293**	**16.592**	**17.009**	**17.529**
Interest Payable £m	0.794	1.053	1.053	1.053	1.053
MRP £m	0.906	0.913	0.913	0.913	0.860
Capital Financing Charges	**1.700**	**1.966**	**1.966**	**1.966**	**1.913**
Ratio	**10.82%**	**12.07%**	**11.85%**	**11.56%**	**10.91%**

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

b. Incremental Impact of Capital Investment Decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the five-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.

New schemes funded from borrowing are expected to generate income/efficiencies to support the cost of borrowing therefore £0 impact on the Taxpayer.

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

£	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Council tax - band D	0	0	0	0	0

Treasury Indicators for Debt

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / 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	2023/24	2024/25	2025/26
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • **Debt only** • **Investments only**	100% 75%	100% 75%	100% 75%
Limits on variable interest rates • **Debt only** • **Investments only**	25% 100%	25% 100%	20% 100%
Maturity structure of fixed interest rate borrowing 2023/24			
		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 2023/24			
		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

PWLB forecasts shown below are based on PWLB certainty rates.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

APPENDIX C

ECONOMIC BACKGROUND (as at December 2022)

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Oct)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

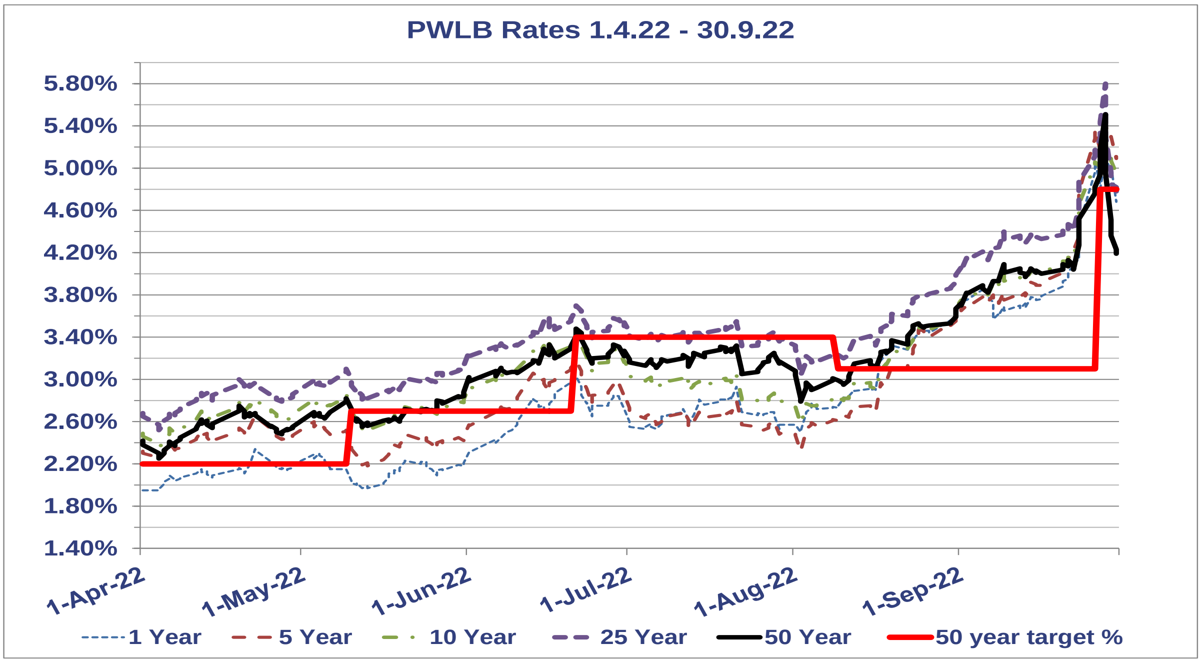
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank’s central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

APPENDIX D

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

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

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the code on 01/03/2010 and will apply its principles to all investment activity. In accordance with the Code, the Director of Corporate Resources (S151 Officer) 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 which includes the Council being an ethical investor who will give consideration to the environmental, social and governance issues (ESG) when making treasury investment decisions
- 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: These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under twelve months. 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 number 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 Director of Corporate Services (S151 Officer), 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 19.12.2022)

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 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
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- 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 budgets 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 2023/24 – 2027/28

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 a 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.

1. 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 2023/24 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 is 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 prioritise expenditure in light of its aims and priorities and considers alternative solutions.

To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with service and revenue budget planning processes within the framework 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 and 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 an annual MRP charge for borrowing undertaken to finance Commercial Properties in line with the latest guidance from DLUHC.

A Valuation Volatility Earmarked Reserve has been created with a target balance of 5% of purchase price of the portfolio, which will reduce over the medium term, reflecting the introduction of an annual MRP charge to reduce outstanding prudential borrowing. 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 Committee	
Tuesday, 24 January 2023	

Subject: Member Development - 2023 Full Member Induction Programme

Report by:	Monitoring Officer
Contact Officer:	Ele Snow Senior Democratic and Civic Officer Ele.Snow@west-lindsey.gov.uk
Purpose / Summary:	To approve the 2023 Full Member Induction Programme timetable, to take place following the all-out elections in May 2023

RECOMMENDATION(S):

1. the 2023 Full Member Induction Programme timetable be approved.

IMPLICATIONS

Legal: Members must receive training to sit on certain previously agreed Committees. If this training is not provided, the Council could be open to judicial review.

Financial: FIN/142/23

Member Development has existing budget of £19,800 for 2023/24. There are no new financial implications at this stage and it is hoped that any proposals could be contained within existing budget provision.

Staffing: Any staffing requirements for training events or development opportunities would be met within existing staff numbers.

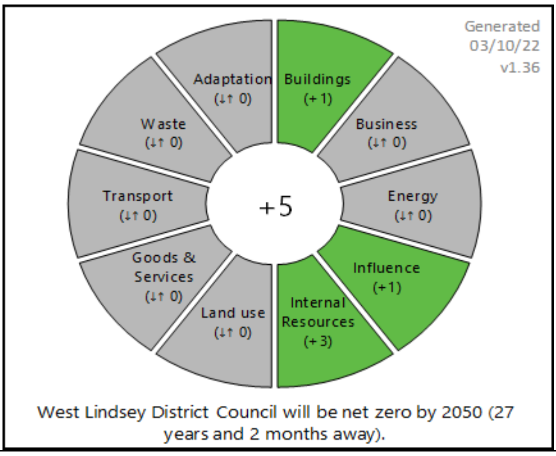
Equality and Diversity including Human Rights: As far as possible, sessions are provided in differing formats and at a variety of times in order to accommodate individual requirements.

Data Protection Implications: None identified

Climate Related Risks and Opportunities: Whilst there is a greater focus on face-to-face sessions through the Induction Programme, as the Member Development Programme is developed throughout 2023 and beyond, priority will be given to providing sessions in a virtual capacity where possible in order to minimise the need for Councillors to travel, thus helping to reduce associated emissions.

New Members will be given tablets or laptops to ensure they can operate in a paperless way

There will also be opportunities for new Members to understand the role of the Climate Change working group as part of Greater Understanding of the Council sessions.



Section 17 Crime and Disorder Considerations: None identified

Health Implications: None identified

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

Risk Assessment :

N/A

Call in and Urgency:

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

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

Key Decision:

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

1 Introduction

1.1 The Governance and Audit Committee is responsible for the monitoring of Member Development and, at its meeting on 11 October 2022, resolved to receive an additional report at its January 2023 meeting, in order to consider, and approve, the timetable for the 2023 Full Member Induction Programme.

1.2 As detailed in the Member Development Annual Report 2021/2022, Officers had begun preparations for the 2023 Full Member Induction Programme earlier in 2022, using the programme from 2019 as a strong foundation to build from. Where suggestions for improvements or additional sessions had been received, these had been incorporated into the proposals for 2023. [These inclusions can be found detailed in section 2.2 of this report.]

1.3 It is requested that the Committee approve the 2023 Full Member Induction Programme timetable as provided at Appendix 1.

2 Summary of Programme Contents

2.1 The content of the Induction Programme has grown since 2019. As mentioned above, the following inclusions have been made for the 2023 programme, following feedback over the preceding four years since 2019.

2.2 Table of Inclusions for Member Induction Programme 2023

Request / Feedback	**Proposed Addition / Amendment**
Introduction to Council Services for new Cllrs	Service Fayre day 1 & 2 of Induction period
Use of Chamber tech	Webcasting etiquette sessions to be extended to include practical use of equipment, with hints and tips to be included
Role of the Auditors	To be included in the first year programme for G&A Cttee Members (open to all)
Awareness of Standing Orders *[rules of debate]*	To be included in the programme and obligatory for Chairs & Vice Chairs
Feedback re timings of sessions	Some sessions from 2019 have been separated out in order to reduce some session times whilst maximising focus on those areas (eg enforcement will become a standalone session)
‘greater understanding of the work of the council’	Introduction of internally provided ‘information sessions’, more specifically aimed at new Cllrs but helpful to all (eg Corporate Plan and MTFP, CLLP & NPs, Environmental & Sustainability Strategy amongst others)

Tech support	Additional sessions to be provided to Cllrs as were offered in 2019, however there will be greater focus on the functionality of, eg, MS Teams and use of such within the council
Delivery methods	Whilst many sessions will remain face-to-face, hybrid sessions will be incorporated into the induction, as well as fully virtual sessions where appropriate. The set up on LearningPool will be a part of the Induction work of the team and Cllrs will be directed to additional resources using that online platform.

2.3 Session Times

2.3.1 On the whole, sessions are booked to take place during the following time slots:

- 12.30pm – 2.00pm
- 2.30pm – 4.00pm
- 4.30pm – 6.00pm
- 6.30pm – 8.00pm

2.3.2 These are shorter sessions than those programmed in 2019, following feedback from Councillors. There are also shorter breaks between sessions, with the intention being to maximise the use of Councillor time spent at the Guildhall. This is following comments regarding 'hanging around' time during the 2019 timetable.

2.3.3 The morning sessions are reserved for bookable IT induction slots, and also to enable Officers to provide closer support to any Councillor who may require it. For example, to complete paperwork and such like. It is also intended that, for those Councillors who choose to attend as many sessions as possible, this will provide them with an improved balance of use of time.

2.4 Session Topics / Subject Areas

2.4.1 The following is a list of those sessions that would be considered 'training' areas, for new and returning Members:

- How the Council Makes Decisions
- Overview of Committees
- Your Role in the Local Community
- Enforcement and Anti-social Behaviour (ASB)
- Risks, Protections and Policies
- Data Protection, Freedom of Information and Information Governance
- Use of Chamber Equipment
- Introduction to Planning
- Member / Officer Relations and Communications

- Safeguarding
- Standing Orders / Rules of Debate
- Code of Conduct
- Declarable Interests
- Webcasting Etiquette
- Emergency Planning and Flooding

2.4.1 The following is a list of training sessions which would be mandatory for the Members of the associated Committee:

- Full day – Planning
- Full day – Licensing and Regulatory
- Half day – work of the G&A Committee and the Role of Auditors
- Evening session – The Role of Overview and Scrutiny
- w/c 22 May onwards – repeat sessions of Standing Orders / Rules of Debate, obligatory for Committee Chairs and Vice Chairs (to be arranged either as individual sessions or for multiple attendees, to be confirmed post Annual Council)

2.4.2 There will also be a selection of information sessions, which will be conducted as hybrid, with the recordings available for Members to access after the event. These topics are as follows:

- Corporate Plan & MTFP
- WLDC External Companies
- Central Lincolnshire Local Plan & Neighbourhood Plans
- Levelling Up Fund
- Environment & Sustainability Strategy
- UK Shared Prosperity Fund
- Progress & Delivery: WLDC Performance Management

3 Conclusion

3.1 The Induction timetable will form part of the pack that is distributed to all election candidates. With this in mind, it must be formalised prior to those packs being prepared for distribution.

3.2 At this current stage, there may be slight amendments required to specific sessions, for example, the order of the hybrid information sessions may change or internally-run ‘training’ sessions may be ordered slightly differently. However, any amendments will be minimal and not impact on the overall timetable. The planned time slots, subject areas and delivery methods will remain as detailed within this report.

3.3 With this in mind, Members are asked to approve the 2023 Full Member Induction Programme timetable.

INDUCTION TIMETABLE 2023

	MONDAY 1 MAY	TUESDAY 2 MAY	WEDNESDAY 3 MAY	THURSDAY 4 MAY	FRIDAY 5 MAY
All Day	BANK HOLIDAY			ELECTION	ELECTION COUNT

WEEK 1	8 MAY	9 MAY	10 MAY	11 MAY	12 MAY
12:30pm – 2:00pm	CORONATION BANK HOLIDAY	Welcome to the Council Services Fayre 9:30am – 6:30pm[1]	Welcome to the Council Services Fayre 10:00am – 4:00pm[2]	How the Council Makes Decisions	Your Role in the Local Community
2:30pm – 4:00pm				Overview of Committees	Enforcement & ASB
4:30pm – 6:00pm				How the Council Makes Decisions	
6:30pm – 8:00pm				Overview of Committees	

WEEK 2	15 MAY	16 MAY	17 MAY	18 MAY	19 MAY
9:30am – 11:30am	Bookable Slots for IT Induction	Bookable Slots for IT Induction	Bookable Slots for IT Induction	Bookable Slots for IT Induction	Bookable Slots for IT Induction
12:30pm – 2:00pm	Risks, Protection & Policies			Safeguarding	Info Session – Corporate Plan & MTFP[a]
2:30pm – 4:00pm	Data Protection, Freedom of Information & Information Governance	Use of Chamber Equipment	Member / Officer Relations & Communications	Standing Orders	Info Session – WLDC External Companies[a]
4:30pm – 6:00pm		Introduction to Planning		Safeguarding	
6:30pm – 8:00pm	Enforcement & ASB	Your Role in the Local Community	Member / Officer Relations & Communications	Standing Orders	

WEEK 3	22 MAY	23 MAY	24 MAY	25 MAY	26 MAY
12:30pm – 2:00pm	Introduction to Planning	Paul Hoey – Code of Conduct	Planning Training External Provider All Day Session Mandatory: Planning Cttee Members[3]	Richard Quirk – Webcasting Etiquette TBC	Info Session – Levelling Up Fund[a]
2:30pm – 4:00pm	Use of Chamber Equipment	Paul Hoey – Declarable Interests		Info Session – Central Lincolnshire Local Plan & Neighbourhood Plans[a]	Info Session – Environment & Sustainability Strategy[a]
4:30pm – 6:00pm	Demo Support Available pre Annual Council	Paul Hoey – Code of Conduct		JSCC 4:00pm / Richard Quirk – Webcasting Etiquette TBC	
6:30pm – 8:00pm	Annual Council 7:00pm	Paul Hoey – Declarable Interests		Data Protection, Freedom of Information & Information Governance	

INDUCTION TIMETABLE 2023

WEEK 4	29 MAY	30 MAY	31 MAY	1 JUNE	2 JUNE
12:30pm – 2:00pm	BANK HOLIDAY	Info Session – UK Shared Prosperity Fund[a]		Licensing & Regulatory Training External Provider All Day Session Mandatory: L&R Cttee Members[4]	
2:30pm – 4:00pm		Info Session – Progress & Delivery: WLDC Performance Management[a]			
4:30pm – 6:00pm					
6:30pm – 8:00pm		Prosperous Communities Committee 6:30pm	Planning Committee 6:30pm		

WEEK 5	5 JUNE	6 JUNE	7 JUNE	8 JUNE	9 JUNE
12:30pm – 2:00pm		Work of the G&A Cttee & the Role of Auditors With External Providers Mandatory: G&A Cttee Members[5]			
2:30pm – 4:00pm	Emergency Planning & Flooding				
4:30pm – 6:00pm					
6:30pm – 8:00pm	Emergency Planning & Flooding	Overview & Scrutiny Training External Provider Evening Session Mandatory: O&S Cttee Members[6]	Risks, Protection & Policies	Corporate Policy & Resources Committee 6:30pm	

COLOUR CODE	In Person Only	Hybrid – In Person & Remote	Fully Remote (MS Teams)	TBC – DISCUSS HYBRID???	

[1] last bookable slot for signing Acceptance of Office on Tuesday 9 May = 6:00pm

[2] no slots for signing Acceptance of Office

[3] First meeting of the Planning Committee takes place 31 May

[4] First meetings of the L&R Cttees take place 15 June

[5] First meeting of the Governance & Audit Committee takes place 13 June

[6] First meeting of the Overview & Scrutiny Committee takes place 27 June

[a] Info sessions will be run once during the induction programme but offered as hybrid sessions – taking place face-to-face with Cllrs being able to join virtually should they wish. Sessions will be recorded and available to all. Should there be sufficient interest as to repeat a session, this will be arranged to take place mid-June onwards.

Governance and Audit Committee Workplan as at 16 January 2023

Purpose:
This report provides details of reports scheduled for committee for the 2022/23 and 2023/24 electoral cycles.

Recommendation:

1. That members note the report.

Date	Title	Lead Officer	Purpose of the report
24 JANUARY 2023			
24 Jan 2023	Draft Treasury Management Strategy 2023/24	Emma Foy, Director of Corporate Services and Section 151	To present West Lindsey District Council's Draft Treasury Management Strategy for 2023/24.
24 Jan 2023	Internal Audit Quarter 3 Report 2022/23	Alastair Simson, Principal Auditor, Lincolnshire County Council	To present the Quarter 3 Internal Audit Report.
24 Jan 2023	Member Development - 2023 Full Member Induction Programme	Ele Snow, Senior Democratic and Civic Officer	To present the planned induction process for Members elected at the 2023 election.
24 Jan 2023	Auditor's Annual Report (Year Ended 31 March 2022)	Emma Foy, Director of Corporate Services and Section 151	To present those charged with governance the Auditor's Annual Report on the work undertaken by Mazar's for the year ended 31 March 2022
14 MARCH 2023			
14 Mar 2023	Annual Governance Statement Action Plan Update	Emma Redwood, Assistant Director - People and Democratic Services	To update progress on the Annual Governance Statement 21-22 Action Plan
14 Mar 2023	Accounts Closedown 2022/23 Accounting Matters	Emma Foy, Director of Corporate Services and Section 151	To review and approve the accounting policies, actuary assumptions and materiality levels that will be used for the preparation of the 2022/23 accounts.

14 Mar 2023	External Audit Strategy Memorandum (Plan) 2022/23	Emma Foy, Director of Corporate Services and Section 151	To present the 2022/23 External Audit Strategy from our External Auditors, Mazars.
14 Mar 2023	Internal Audit Draft Annual Plan 2023/24	Alastair Simson, Principal Auditor, Lincolnshire County Council	To present the Draft Annual Plan for Internal Audit for the 2023/24 committee year.
14 Mar 2023	Combined Assurance Report 2022/23	Alastair Simson, Principal Auditor, Lincolnshire County Council	To present the Report from the Combined Assurance aspect for 2022/23
18 APRIL 2023			
18 Apr 2023	Internal Audit Quarter 4 Report 2022/23	Alastair Simson, Principal Auditor, Lincolnshire County Council	To present the Quarter 4 report from Internal Audit.
18 Apr 2023	Annual Constitution Review & Monitoring Officer Report	Emma Redwood, Assistant Director - People and Democratic Services	To review the Constitution and provide the MO annual report
18 Apr 2023	Contract and Financial Procedure (CPRS and FPRS) Review	Emma Foy, Director of Corporate Services and Section 151	To review West Lindsey District Council’s contract and financial procedure rules
18 Apr 2023	6 Month Review of Strategic Risks	Emma Redwood, Assistant Director People and Democratic Services	To present the 6 month review of strategic risks
13 JUNE 2023			
13 Jun 2023	*Internal Audit Quarter 4 Report 2022/23*	*Alastair Simson, Principal Auditor, Lincolnshire County Council*	*From Assurance Lincolnshire*
13 Jun 2023	*Annual Counter Fraud Report 2022/23*	*Emma Foy, Director of Corporate Services and Section 151 Officer*	*To inform members of counter fraud activity, instances of fraud during the year and future*

25 JULY 2023			
25 Jul 2023	*Member Development Annual Report 2022/2023*	*Ele Snow, Senior Democratic and Civic Officer*	*To review Member Development for the previous Civic Year and to agree relevant actions for the current Civic Year*
25 Jul 2023	*Internal Audit Annual Report 2022/2023*	*Alastair Simson, Principal Auditor, Lincolnshire County Council*	*To present the annual report.*
25 Jul 2023	*Annual Voice of the Customer Report 2022/23*	*Natalie Kostiuk, Customer Experience Officer*	*To summarise customer feedback from the year 2022/23 and analyse customer contact and demand data to provide a clear view of the voice of the customer.*
10 OCTOBER 2023			
10 Oct 2023	*Internal Audit Quarter 2 Report 2023/24*	*Alastair Simson, Principal Auditor, Lincolnshire County Council*	*To present the Quarter 2 Internal Audit Report.*
10 Oct 2023	*Local Government and Social Care Ombudsman (LGSCO) Annual Review Letter Report 2022/23*	*Natalie Kostiuk, Customer Experience Officer*	*Report on the Local Government and Social Care Ombudsman (LGSCO) Annual Review letter 2022/23 covering complaints referred to them between April 2022 and March 2023. Examining upheld complaints, learning actions and benchmarking with other authorities.*