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Charnwood

AUDIT COMMITTEE

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To: Councillors Angell (Chair), Bolton, S. Bradshaw, Charles, Parsons, Boldrin and Taylor
(For attention)

All other members of the Council
(For information)

You are requested to attend the meeting of the Audit Committee to be held in Virtual Meeting - Zoom on Tuesday, 22nd September 2020 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

14th September 2020

AGENDA

1. ELECTION OF VICE-CHAIR FOR 2020/21

   Committee procedure 12.3 of the Council's Constitution states that the Vicechair of the Audit Committee will be appointed by the Committee from among its members. The Committee is asked to do so for the Council Year 2020/21.

2. APOLOGIES

3. MINUTES FROM THE PREVIOUS MEETING 3 - 10

   The Committee is asked to confirm as a correct record the minutes of the meeting

of the Committee held on 9th June 2020.

4. DISCLOSURES OF PECUNIARY AND PERSONAL INTEREST

5. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions were submitted.

6. PROGRESS OF EXTERNAL AUDIT UPDATE

A verbal report of the External Auditors will be presented to the Committee.

7. CAPITAL STRATEGY UPDATE 11 - 75

A report of the Head of Finance and Property Services.

8. INTERNAL AUDIT PROGRESS REPORT 76 - 104

A report of the Head of Strategic Support.

9. 2019/20 MEMBER ALLOWANCES CLAIMED 105 - 109

A report of the Head of Strategic Support.

10. WHISTLE BLOWING, ANTI-FRAUD, CORRUPTION AND BRIBERY POLICY 110 - 112

A report of the Head of Strategic Support.

11. RISK MANAGEMENT (RISK REGISTER) UPDATE 113 - 129

A report of the Head of Strategic Support.

12. COUNCIL'S USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA) 130 - 132

A report of the Head of Strategic Support.

13. WORK PROGRAMME 133 - 135

Report of the Head of Strategic Support.

AUDIT COMMITTEE
9TH JUNE 2020

PRESENT: The Chair (B. Angell)
The Vice Chair (Councillor Bolton)
Councillors S. Bradshaw, Charles, Hadji-Nikolaou, C. Harris and Parsons

Shared Service Audit Manager
Internal Auditor
Strategic Director of Corporate Services
Head of Strategic Support
Head of Planning and Regeneration
Sustainability Officer
Head of Finance and Property Services
Internal Audit Manager
Democratic Services Officer (NA) and Democratic Services Officer (NC)

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

96. MINUTES FROM THE PREVIOUS MEETING

The minutes of the meeting of the Committee held on 11th March 2020 were confirmed as a correct record and signed.

97. DISCLOSURES OF PECUNIARY AND PERSONAL INTEREST

No disclosures were made.

98. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

99. EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE

The Committee was advised that the External Audit Team had been furloughed and were therefore unable to attend the meeting or provide an update report.

Internal officers advised the Committee that the statement of accounts was due to be completed on time and there was no expectation that the new external audit plan would be much different from last year's plan.

The Committee was happy to note the report.

100. INTERNAL AUDIT PROGRESS REPORT

A report of the Head of Strategic Support summarising the progress against outstanding audits for the 2019/20 Audit Plan was submitted (item 6 on the agenda filed with these minutes).

The Audit Manager attended the meeting to assist with consideration of the item.

The Committee was advised that the Covid-19 outbreak had caused the proposed audit plan to change as work could not continue as usual. The plan would be reviewed to reflect the new risk environment and work would be prioritised again.

Work was also continuing to align the three Councils within the new shared service, to standardise processes and continue with undertaking audits.

RESOLVED

1. That the Committee notes the progress report set out in Appendix 1.
2. That the Committee approves the proposed changes to Internal Audit opinions as set out in Appendix 2.

Reasons

1. To ensure the Committee is kept informed of progress against the approved Internal Audit Plans.
2. To introduce a standardised approach to Internal Audit engagement opinions across the Shared Internal Audit Service which comply with CIPFA guidance.

101. 2019/20 ANNUAL INTERNAL AUDIT REPORT

A report of the Head of Strategic Support presenting the Annual Internal Audit report was submitted (item 7 on the agenda filed with the minutes).

The Audit Manager attended the meeting to assist with consideration of the item.

The Committee was advised that a moderate assurance level had been issued based on the audits that had been completed. There was a discussion about the assurance levels given over the years and it was felt by the Committee that assurance had slipped but there was a hope that it would improve again.

RESOLVED that the Committee note the report.

Reason

To acknowledge the Committee's consideration of the matter.

102. INTERNAL AUDIT CHARTER

A report of the Head of Strategic Support to present the Internal Audit Charter to the Committee was submitted (item 8 on the agenda filed with these minutes).

The Audit Manager assisted with consideration of the item.

The Committee was advised that the audit charters for the three Councils was being standardised as it was important that the charter was the same for the shared service. There was also more emphasis on key relationships and record retention under the new charter.

The Audit Team had also been receiving feedback from their satisfaction surveys and the current return rate was around 50%. The Committee was advised that the Team would be introducing an online form which would be easier to complete and they hoped to improve their return rate.

RESOLVED that the Internal Audit Charter be approved.

Reason

To acknowledge the Committee's consideration of the matter and to conform with the requirements of the Public Sector Internal Audit Standards (PSIAS).

103. ENVIRONMENTAL AUDITS - REPORT ON OUTCOMES

A report of the Head of Planning and Regeneration to update the Committee on the outcomes of environmental audits undertaken for February 2020 was submitted (item 9 on the agenda filed with these minutes).

The Head of Planning and Regeneration and the Sustainability Officer attended the meeting to assist with consideration of the item.

The Committee discussed the audits completed and a request was made that future reports include the specific timescales to add clarity.

RESOLVED that the Committee notes the report.

Reason

To acknowledge the Committee's consideration of the matter.

104. TREASURY OUTTURN REPORT 2019/20

A report of the Head of Finance and Property Services reporting the Council's Treasury Management, Investment Management and Prudential Code Outturns for the year 2019/20 was submitted (item 10 on the agenda filed with these minutes).

The Strategic Director for Corporate Services and the Head of Finance and Property Services attended the meeting to assist with consideration of the item.

The Committee was advised that due to the Covid-19 pandemic a recovery report would be presented to the Cabinet later on the year describing how the Council would fund its operations and how any reserves would be used, including the £5m for commercial and property investment. It was acknowledged that any investments made now would be more difficult to manage so the recovery report would consider the challenges faced.

RESOLVED that the report be noted.

Reason

To acknowledge the Committee's consideration of the matter.

105. RISK MANAGEMENT (RISK REGISTER) UPDATE

A report of the Head of Strategic Support presenting the Strategic Risk Register for 2020/21 was submitted (item 11 on the agenda filed with these minutes).

The Head of Strategic Support assisted with the consideration of the item.

The Committee was advised that a separate risk register had been developed in relation to the Covid-19 pandemic which summarised the most significant risks the Council faced including loss of income.

It was acknowledged that whilst services had run through an online presence there were still vulnerable and elderly residents who needed a face to face service.

The Chief Executive had been named as a risk owner on some of the registers so the Committee discussed whether this was appropriate but it was noted that there was a collective responsibility for the risk registers which held the Council to account.

RESOLVED that the report be noted.

Reason

To acknowledge the Committee's consideration of the matter.

106. COUNCIL'S USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA)

A report of the Head of Strategic Support to provide the Committee with a summary of the Council's use of RIPA powers was submitted (item 12 on the agenda filed with these minutes).

The Head of Strategic assisted with the consideration of the item.

The Committee was advised that there had been no use of RIPA powers between 1st February 2019 to 30th April 2020. This was deemed to be positive.

RESOLVED that the report be noted.

Reason

To acknowledge the Committee's consideration of the matter.

107. WORK PROGRAMME

A report of the Head of Strategic Support was submitted to enable the Committee to consider its work programme (item 13 on the agenda filed with these minutes).

The Committee was advised that following a restructure to the Council's scrutiny procedure it was noted that the Audit Committee should work more with the Scrutiny Commission group. The Democratic Services Team advised that they would officiate a meeting between the two chairs to discuss how this would work.

RESOLVED

that the Committee proceeds on the basis of the following work programme, which incorporates all decisions made at this meeting:

ISSUE	MEETING
Internal Audit Business	Ongoing
2019/20 Review of the effectiveness of Internal Audit (Feedback from Panel)	28th July 2020 *(deferred from 9th June 2020)* Annually
2019/20 Members' Allowances Claimed	28th July 2020 *(deferred from 9th June 2020)* Annually
Whistle Blowing and Anti-fraud, Corruption and Bribery	28th July 2020 *(deferred from 9th June 2020)* Annually
2019/20 Statement of Accounts	28th July 2020 (Accounts Meeting) Annually
2019/20 Annual Governance Statement and Review of the Code of Corporate Governance	28th July 2020 (Accounts Meeting) Annually
Internal Audit Plan – Progress	22nd September 2020 Quarterly
Risk Management (Risk Register)	22nd September 2020 Quarterly - detailed report every six months, exception report quarters in-between.

Council's Use of Regulation of Investigatory Powers Act (RIPA)	22nd September 2020 Quarterly
Environmental Audits Outcomes – Progress update	22nd September 2020
Annual IT Health Check (Code of Connection) ***Confidential Report***	22nd September 2020 Annually
Treasury Management Mid-Year Review	22nd September 2020 Annually
2020/21 Treasury Management Statement, Annual Investment Strategy and MRP Strategy	February 2021 Annually
2021/22 Internal Audit Plan	February 2021 Annually

2020/21 Annual Internal Audit Report	June 2021 Annually
Internal Audit Charter	June 2021 Annually (for approval)
Environmental Audits – Report on Outcomes	June 2021 Annually *Note: Six month exception report where identified actions are not implemented by the target date.*
2020/21 Treasury Management Outturn	June 2021 Annually
Future of Local Public Audit	Report on Government proposals considered 5th July 2011. Further report once final regulations/guidelines are known. Note: Appointing Your External Auditor briefing note considered June 2016.
Policy for Engagement of External Auditors for non-audit work	Considered March 2013. Review policy - date to be agreed
Update on Covid-19 Risk Register	To be scheduled
External Audit Business	Ongoing
External Audit Progress Report and Technical Update	22nd September 2020 Quarterly
2019/20 Annual Governance Report	28th July 2020 (Accounts Meeting) Annually
2020/21 Annual Audit Letter	February 2021 Annually
2021/22 External Audit Plan	February 2021 Annually

NOTES:

1. No reference may be made to these minutes at the Council meeting on 29th June 2020 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Audit Committee.

AUDIT COMMITTEE – 22ND SEPTEMBER 2020

Report of the Head of Strategic Support

ITEM CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2020/21

Purpose of Report

The purpose of this report is to provide the Committee with an opportunity to scrutinise the proposed Capital Strategy for 2020/21 and associated recommendations that are being recommended by Cabinet to full Council for approval.

Recommendation

That the Committee considers the proposed Capital Strategy (including the Treasury Management Strategy) for 2020/21, as attached in the draft Cabinet report dated 15 October 2020, to determine whether there are any issues it wishes to draw to the attention of Cabinet at that meeting or at full Council when they consider the relevant recommendations from Cabinet (recommendations 1 to 3 within the Cabinet report).

Reason

To ensure that the proposed documents are appropriately scrutinised.

Policy Justification and Previous Decisions

The Audit Committee is specified as being the body responsible for scrutinising these documents before they are presented to full Council for approval.

It may be noted that these documents are in 'draft' status as they have not yet (as at 22 September 2020) been published for the 15 October 2020 Cabinet agenda. However, no material changes between draft and final (published) reports are anticipated.

Implementation Timetable including Future Decisions

The reports relating to the Capital Strategy are due to be considered at the Cabinet meeting of 15 October 2020 with a view to recommendations being presented to Council.

The recommendations of Cabinet will be considered at the full Council meeting on 9 November 2020.

Report Implications

The following implications have been identified for this report.

Financial Implications

As set out in the Cabinet report.

Risk Management
As set out in the Cabinet report.

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CABINET – 15TH OCTOBER 2020

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2020/21

Purpose of Report

This report introduces the Capital Strategy, which is required under the terms of the 'Prudential Code', a statutory code of practice. The report also sets out the Treasury Management Strategy Statement together with the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy. These latter strategies and the MRP policy are integral to the overarching Capital Finance Strategy and are therefore presented within a single report for context.

This Cabinet report recommends the approval of the above strategies to Council.

Recommendations

1. That the Capital Strategy, as set out at Appendix A of this report be approved and recommended to Council.

2. That the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy as shown at Appendix B of this report be approved and recommended to Council.

3. That the Prudential and Treasury Indicators, also set out in within Appendix B of this report be approved and recommended to Council.

Reasons

1. To enable the Council to comply with the statutory code of practice issued by CIPFA: 'The Prudential Code for Capital Finance in Local Authorities, 2017 Edition'.

2. To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement.

3. To ensure that funding of capital expenditure is taken within the totality of the Council's financial position and that borrowing and investment is

only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

Policy Justification and Previous Decisions

The Capital Strategy must be approved by Council on an annual basis.

The Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly.

The original version of the Medium Term Financial Strategy (covering financial years 2020 - 2023) outlined the prospective financial challenges facing the Council and the contribution expected of the Investment Strategy in mitigating these challenges. Whilst the COVID-19 has exacerbated these challenges as reflected in the updated Medium Term Financial Strategy for 2020 – 2023, the Investment Strategy remains a key part of the Council's response.

Implementation Timetable including Future Decisions and Scrutiny

The implementation of this Strategy was previously scheduled for April 2020 but has been delayed due to cancellation of Council meetings due to the COVID-19 outbreak. If approved by Council the Capital Strategy (including its component strategies) will come into effect from 9 November 2020.

In line with the Financial Regulations the Audit Committee had the opportunity to review the draft Financial Strategy at its meeting of 22 September 2020. [meeting comments to add]

This report is also available for the consideration of the Scrutiny Commission on 12 October 2020.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Financial issues arising from the implementation of the strategies are covered within the report.

Risk Management

Risk Identified	*Likelihood*	*Impact*	*Overall Risk*	*Risk Management Actions Planned*
Poor treasury investment decisions due to inadequate treasury management strategies in place	Unlikely 2	Serious 3	Moderate 6	Strategy developed in accordance with CIPFA guidelines and best practice. Adherence to clearly defined treasury management policies and practices
Loss of council funds through failure of borrowers	Remote 1	Major 4	Low 4	Credit ratings and other information sources used to minimise risk Adherence to clearly defined treasury management policies and practices
Volatile market changes (such as interest rates or sector ratings) occur during year	Likely 3	Significant 2	Moderate 6	Approved strategy in place, regular monitoring of position and use of Treasury Consultants and other sources to provide the latest advice.
Significant losses arising from investments in non-financial instruments (such as loans to third parties or property investments)	Unlikely 2	Major 4	Moderate 8	Professional advice will be sought in advance of non-standard or new investment activity. Adherence to strategy which set out limits to investment in individual asset classes.

Key Decision: Yes

Background Papers: Investment Strategy 2019 - 20, Cabinet Report 19 September 2019

Treasury Management mid-year update – Cabinet Report 14 Nov 2019

Revised Capital Plan 2020 – 2023 – Cabinet Report 15 October 2020

Officers to contact:

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Part B

Background

1. The implementation of this version of the Capital Strategy has been delayed. Initially scheduled for approval at the Council meeting of 24 February 2020, it was necessary to reschedule the Strategy for approval at the Council meeting of 27 April 2020. This meeting was subsequently cancelled due to the COVID-19 outbreak and hence the Strategy as originally drafted in respect of 2020/21 was not approved by Council.

2. Due to the impact of COVID-19 it has been considered appropriate to modify the original draft Strategy for 2020/21 and hence a second Cabinet report is necessary to recommend the modified version to Council.

3. The Capital Strategy is a requirement arising from the extant version of the 'Prudential Code'. This code is a statutory code of practice and was published by the Chartered Institute of Public Financial Accountants (CIPFA) taking effect from 1 April 2019. It was issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to 'such guidance as the Secretary of State may issue'.

4. The Council's treasury management activities also fall within the scope of the Prudential Code.

5. The Capital Strategy forms part of the Council's integrated revenue, capital and balance sheet planning. It sets out the long-term context in which capital expenditure and investment decisions are made, considers risks and rewards and the potential impacts on Council objectives

6. The Capital Strategy is an overarching strategy that encompasses the following aspects:

    - Capital expenditure and governance
    - Capital financing and the borrowing
    - Treasury management investments (essentially financial assets) set out within the Annual Investment Strategy
    - Commercial strategy – investment in non-financial assets (including commercial properties and prospective housing development)
    - Access to knowledge and skills (enabling the strategy to be delivered)
    - Treasury Management policy statement and practices (presented as a separate appendix)

7. The Treasury Management Strategy Statement, incorporating the Annual Investment Strategy, have been prepared in accordance with the revised code and accordingly include:

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

<u>Salient features of the proposed Capital Strategy for 2020/21</u>

8. The principal changes and matters of note proposed within the Strategies and other Appendices to this report are:

    - An amendment to the Annual Investment Strategy to increase counterparty limits on deposits with HSBC (the Council's bankers) to take advantage of an easily accessible term deposit at favourable interest rates (see Appendix B – B3)
    - An amendment to the Annual Investment Strategy to increase the maximum maturity period for local authority investments from 24 to 60 months (see Appendix B – B3)
    - An amendment to the Annual Investment Strategy to add Housing Associations (with adequate credit references) to the list of allowed non-specified investments, again to offer the potential of achieving greater investment returns (see Appendix B – B3)
    - Other amendments to the Strategies to allow:

- The development of a commercial property portfolio enabled by total borrowings of up to £25m
- Creation of a fund to take opportunities arising from the Town Deal, or other regeneration opportunities enabled by total borrowings of up to £15m
- Creation of a fund to to allow 'forward funding' of buildings or infrastructure within the Enterprise Zone enabled by total borrowings of up to £15m

- Implementing the above requires:
  - Uplift to the estimates of the Capital Financing Requirement (see Appendix B, section 2.2)
  - Increasing the allowed limits to borrowing and investment activity (see Appendix B, sections 3.2 and 4.4)
- Implementing a policy on MRP which specifically addresses prospective acquisitions of commercial property (see Appendix B, sections 2.4 and Appendix B (2))

9. For the purposes of the Capital Strategy and other documents associated with this report it is assumed that the Council will also approve the Revised Capital Plan 2020 – 2023 which is scheduled for the same Cabinet and council date as this report.

10. As stated in Part A, this report also requests that the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy together with the Prudential and Treasury Indicators, be approved and recommended to Council.

<u>Appendices</u>

Appendix A: Capital Finance Strategy

Appendix B: Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy for 2019-20

Sub appendices contained within this document:

B (1) Economic background

B (2) Minimum Revenue Provision

B (3) Treasury Management Practice

B (4) Approved countries for investment

B (5) List of approved brokers for investment

B (6) Current investments (illustrative snapshot)

B (7) Treasury management scheme of delegation

B (8) Treasury management role of the Section 151 Officer

Charnwood Borough Council

Capital Strategy

2020 – 2021

Foreword

The requirement for the Capital Strategy arises from the terms of the 'Prudential Code', a statutory code of practice. The implementation of the second iteration of our Capital Strategy has been somewhat delayed due to COVID-19 but this does at least allow us to consider the financial impact of the outbreak (to the extent we understand it at present) and also to reflect emerging opportunities such as those arising from the Town Deal and the Enterprise Zone.

Generally, this version of the Capital Strategy builds on our initial thinking and develops in more detail some of our plans and aspirations in the areas of capital planning, treasury management, and new borrowing to assist the economic development of our communities as they recover from the COVID-19 outbreak. At this point in time we still have the intention of developing a portfolio of commercial property to help us mitigate the financial challenges outlined in the latest version of our Medium Term Financial Strategy. This is something that is more important than ever given the additional financial pressures arising from COVID-19 but we are aware that the rules around borrowing to finance commercial property are likely to change, and clearly any investment decisions made will need to be in compliance with extant regulation.

Alongside this Capital Strategy, we are also bringing forward mid-year revisions of the Medium Term Financial Strategy 2020 - 23, Budget 2020/21, and Capital Plan 2020 – 23, which aim to provide a 'reset' in the light of the COVID-19 outbreak, and be helpfully read in conjunction with each other.

Our plans include a more proactive approach to treasury management, investment in regeneration and economic development, prospective investments in commercial property and the wider development of commercial opportunities. We also still have aspirations to deliver housing through the mechanism of a Housing Development Company in order to meet the ongoing demand for new homes within our Borough. Enabling these initiatives require additional flexibility in the Council's treasury management and borrowing policies which are introduced within the Capital Strategy and associated Treasury Management Strategy which outlines important changes in this regard, in particular the anticipated use of prudential borrowing to support investment and a more financially advantageous approach to refreshing the environmental services fleet. Security and liquidity will remain as key elements of the Council's approach to financial management but the anticipated challenges ahead point us towards a more proactive approach in the use of our financial assets.

Councillor Tom Barkley

Cabinet Lead Member for Finance & Property Services

September 2020

CAPITAL STRATEGY (INCLUDING TREASURY MANAGEMENT)

The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

1. **Capital expenditure**; which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

2. **Capital financing and borrowing**; provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will make prudent revenue provision for the repayment of debt should any borrowing be required.

3. **Treasury management investments**; explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed.

4. **Commercial investments**; provides an overview of those of the Council's current and any potential commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

5. **Knowledge and skills**; summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite. Further details are provided in the following sections.

6. (Appendix B). **Treasury management policy statement and practices**; this is presented separately; it updates to the Council's Treasury Management Policy Statement and to its Treasury Management Practices. These set out the Council's policies, objectives and approach to risk management of its treasury management activities, and the manner in which it seeks to achieve its policies and objectives for treasury management.

1. Capital expenditure

1.1. Capitalisation policies

1.1.1. Capital expenditure involves acquiring or enhancing non-current assets with a long-term value to the Council, such as land, buildings, and major items of plant and equipment or vehicles, as well as the contribution or payments of grants to others to be used to fund capital expenditure. Capital assets shape the way services are delivered for the long term and may create financial commitments for the future in the form of financing costs and revenue running costs. Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria below are met.

1.1.2. Expenditure is classified as capital expenditure when the resulting asset:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Is of continuing benefit to the Council for a period extending beyond one financial year.

1.1.3. There may be instances where expenditure does not meet this definition, but would nevertheless be treated as capital expenditure. This is known as 'Capitalisation' and it is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It allows exceptional revenue costs, that should be met from revenue resources to be treated as capital expenditure. Permission is given through capitalisation directions, which the Secretary of State can issue under section 16(2)(b) of the Local Government Act 2003.

1.1.4. The Council operates a de-minimis limit of £10,000 for capital expenditure. This means that items below this limit are charged to revenue rather than capital.

1.2. Governance

1.2.1. A three year Capital Plan is prepared by officers and approved by Council. Potential schemes are identified by Officers, in conjunction with Cabinet members, and supported by a Capital Application form. Following a process of review by senior officers a report is prepared for Cabinet with recommendations as to which schemes to include in the Plan, how the Plan would be funded and other elements such as risk and compliance with the Prudential Code.

1.2.2. Once adopted the three year Capital Plan is formally reviewed by Cabinet at the end of year two when Heads of Service are asked to submit proposals for the following three years. 'Year three' of the current plan would then become 'year one' of the new plan.

1.2.3. New schemes can only be added outside of this procedure where they are in substitution of existing schemes or have a separate source of funding so that the actual total level of the Plan would not increase.

1.2.4. All schemes of £50,000 in value or greater require Capital Appraisal and all procurement and contracting must adhere to the Contract Procedure Rules. The s151 Officer makes recommendations to Cabinet as to whether funding should be released to allow new schemes to be included in the Capital Plan.

1.2.5. After the end of the financial year an outturn report detailing the total amount of capital expenditure incurred during the year is submitted to Cabinet by the Section 151 Officer.

1.2.6. Prior to the closure of the Council's accounts a report detailing the proposed method of funding the capital expenditure incurred is submitted to Cabinet by the Section 151 Officer as required by the Local Government & Housing Act 1989.

1.3. Current Capital Plan

1.3.1. The Council has a policy of preparing a three year Capital Plan, and then refreshing this every other year. Due to timings, there are at the time of drafting this Strategy essentially two Capital Plans in existence. The first covering the financial years 2018/19 - 2020/21, was originally approved by Council on 26 February 2018 with the latest amendments approved by Cabinet at its meeting of 16 December 2019. The second is the 'new' capital plan covering financial years 2020/21 – 2022/23 which was approved by Council on 24 February 2020.

1.3.2. It was always envisaged that the Capital Plans would be merged to create to single Plan from 1 April 2020. Additionally, following the COVID-19 outbreak this merged Capital Plan will be subect to a mid-year revision to reflect additional financial pressures and emerging new priorities. This amended, merged, Capital Plan is scheduled for consideration at the Council meeting of 9 November 2020, alongside this Capital Strategy.

1.3.3. In totality, to 31 March 2023, capital expenditure (including externally funding) is planned as follows:

General Fund	£78m
HRA	£24m

The capital expenditure for the General Fund shows a very significant increase over previous years. This includes £4.8m required for the purchase of the Environmental Services Fleet and other amounts which

are designed to allow the Council to invest in the event that opportunities present themselves. The key elements here are:

- £15m - Regeneration funding to support Town Deal and other initiatives
- £15m – Forward funding of schemes enabling the development of the Enterprise Zone financed by future business rate receipts
- £25m – Creation of a commercial property portfolio

1.3.4. It should be stressed that inclusion of the above within the Capital Plan does not imply that all (or any) of the above amounts would be expended. Further discussion of the above is set out later in this document.

1.3.5. The Capital Plan is funded by a combination of the following sources:

- Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.
- Capital receipts – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.
- Revenue contributions – amounts set aside from the revenue budget.

1.3.6. Prudential borrowing - In addition to the above the Council also has the option to borrow to fund capital expenditure. At this point in time the Council has not taken any borrowing to fund General Fund capital expenditure but some level of borrowing will now be required if the Council is to deliver its Capital Plan within the projected timescales.

1.3.7. The Council has taken out borrowing to fund the purchase of its housing stock (held within the Housing Revenue Account) from the Government under the 2012 Self-Financing Regime. This totals £79m.

1.3.8. Borrowing allows the Council to defer the funding of its capital expenditure so that it does not need to fund immediately from existing reserves, but instead charges to the revenue budget over a number of years into the future.

1.3.9. The implications of financing capital expenditure from ‘borrowing’ are explained later on in Treasury Management Investments.

2. Capital Financing Requirement and borrowing

2.1. The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the ‘Prudential Code’) when assessing the affordability, prudence and sustainability of its capital investment plans. Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively

build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

2.2. At the time of drafting the Government, in conjunction with CIPFA, is consulting on a revised set of rules and associated Prudential Code, which will significantly restrict the ability of local authorities to borrow for the acquisition of commercial properties. The final detail of any changes, and effective date of implementation of the new Code will obviously be addressed as part of any investment decisions.

2.3. As referenced in the previous section, the Council's capital expenditure plans mean that it is highly likely that the Council will need to finance this expenditure using prudential borrowing. This is an important departure from historical practice and the implications of this approach are set out within Appendix B of this document set which details (potential) prudential borrowing within the overall context of the Council's Capital Financing Requirement.

2.4. The full details of the Council's Capital Financing Requirement (CFR) position and the limits that have been set for borrowing and all the associated prudential indicators are provided In the Treasury Management Strategy Statement (Appendix B).

3. Treasury management investment

3.1. The Treasury Management Code and statutory regulations require the Council to prepare an annual strategy that explains how the Council will invest its funds, giving priority to security and liquidity, and then to yield. This Annual Investment Strategy is set out in full in the Treasury Management Strategy Statement (Appendix B).

3.2. The Council's Treasury Management Strategy Statement (TMSS) covers 'specified investments' and loans to other local authorities. The policies are designed to comply with the Statutory Guidance on Local Government Investments ('the Guidance'), effective from 1 April 2018. The Council manages treasury operations in line with its TMSS, which in turn is in accordance with the guidance. The Council is required to review the TMSS on an annual basis.

3.3. The Guidance defines in detail what criteria an investment would meet to be categorised as 'specified' One of the criteria of specified investments is that the local authority has a contractual right to repayment within 12 months. Certain loans to other local authorities made by the Council have a term of up to two years (with an intention to increase the allowed maimum to five years), so do not fall strictly within the definition. However, the Council considers that management of this type of financial instrument should fall within the ambit of the TMSS.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY FOR 2020/21

3.4. Interest rates are at historically low levels and are expected to remain so for several months ahead. In a continuation of the current direction, in which the Council has sought to increase returns from its treasury management activities.

3.5. Assuming an average fund under management of £50m, an increase in return by an average of 0.1%, this would generate additional income of £50,000 per annum.

3.6. Given the above the following amendments have been made to the TMSS:

- An amendment to increase counterparty limits on deposits with HSBC (the Council's bankers) to take advantage of an easily accessible term deposit at favourable interest rates (see Appendix B – B3)

- An amendment to increase the maximum maturity period for local authority investments from 24 to 60 months (see Appendix B – B3)

- An amendment to add Housing Associations (with adequate credit references) to the list of allowed non-specified investments, again to offer the potential of achieving greater investment returns (see Appendix B – B3)

4. Commercial investments

4.1. The prolonged low interest rate environment has meant that treasury management investments have not generated significant returns. However, the introduction of the general power of competence has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, have led many authorities to consider different and more innovative types of investment.

4.2. CIPFA has issued an update to its Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced by the new Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies.

4.3. Separately, the Ministry of Housing, Communities and Local Government has issued Statutory Guidance on Local Government Investments under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018.

4.4. As is the case for treasury activities, commercial investment should balance:

- Security – to protect the capital sums invested from loss
- Liquidity – ensuring the funds invested are available for expenditure when needed
- Returns – ensuring that the Council's investment ability is used effectively

4.5. Commercial investments of are primarily undertaken by the Council in order to generate income to support the delivery of a balanced budget. Such investments are only entered following a full assessment of the risks and having secured expert external advice (i.e. where it is relevant to do so).

4.6. Commercial investment may be defined quite widely and could include, for example:

- Commercial property investment held solely for the purposes of generating a financial return
- Investments in wholly owned companies and joint ventures (which maybe in the form of equity or loans)
- Wider scale and more ambitious regeneration projects
- Ad-hoc complex investments

4.7. The Statutory Guidance describes non-financial investment as being in non-financial assets held primarily or partially to generate a profit. Usually it will be

expected that the underlying asset could be 'realised' to recoup the capital invested.

4.8. There are important aspects of financial reporting that Council's must be aware of. In terms of reporting it is necessary to state whether:

- The fair value of non-financial investments is sufficient to provide security against losses, and that the underlying assets provide adequate security for the originating capital investment
- Where the fair value is insufficient detail of mitigating actions should be provided to protect the capital invested
- Additionally, where the fair value assessment recognises a loss in the non-financial investment the subsequent Capital Strategy will need to reflect the impact of loss of security and the associated revenue consequences
- Fair value accounting in this context is covered by International Financial Reporting Standard 9, as modified by a five-year statutory override applicable to local authorities (covering financial years from 2018/19). The implication of the override is that if a local authority recognises a loss on investment then this will not impact on the general fund, or, therefore, on an authority's ability to set its budget. However, the override is (currently) time limited and a major downturn in the value of specific assets, or the property market generally, represents a clear risk in future financial periods.

4.9. The following paragraphs outline options open to the Council and sets out the strategic approach the Council intends to adopt in this area.

<u>Commercial Investment properties</u>

4.10. The Council already owns land and buildings that have been acquired for capital appreciation and/or solely to earn rentals, rather than for the supply of goods or services or for administrative purposes. Such assets are classified as investment properties (unless they are acquired as the outcome of a regeneration priority).

4.11. In considering its approach to investment properties the Council has to consider the application of parameters including:

- Prospective cost of potential acquisitions
- The maximum proportion of the Council's investment assets that should be held in the form of investment properties
- The balance of property assets held with different sectors of the market
- Possible geographical limits on prospective acquisitions

- Whether properties are acquired purely on commercial grounds or whether other policy objectives, such as regeneration, should also be taken into account

- The required or target rental yield from properties held for investment

4.12. The strategy for 2020/21 is set out below.

STRATEGY FOR 2020/21 - INVESTMENT IN COMMERCIAL PROPERTY

An total of £25m to expand the Council's commercial property portfolio has been created within the updated 2020 - 23 Capital Plan. This amount represents the total value of the commercial property portfolio considered appropriate for the Council at this time.

This investment will be purely to generate investment returns to address the financial challenges outlined in the extant MTFS.

No specific minimum or maximum will be applied to any single property investment, to avoid restricting the Council's actions should financially advantageous opportiunities present themselves. However, it is envisaged that acquistions, at least initially, will normally be in the range of £1m - £10m. It should also be noted that availability of funds set aside in the capital plan provide a natural limit on the cost of acquisitions.

The target minimum acceptable net yield, after allowing for interest payments and MRP charge will be 3.5%. This minimum net yield may be varied, e.g. it may be appropriate to accept a lower yield to balance risk within the overall property portfolio. In cases where the 3.5% minimum net yield will not be met, this will be understood and recorded in any delegated decision to purchase, providing a clear rationale and justification.

Property acquisitions may often be located outside of the Borough - this assists the Council to act in the same way as a commercial landlord and not allow returns to be compromised by local considerations – but this will not preclude good investment opportunities within the Borough being taken up.

Reserves will be created out of rental income to allow for the impact of:

- MRP requirements
- Allowance for void rental periods and landlord repair obligations

Appropriate independent professional advice will be sought for each property acquisition.

Timing of any transaction may not allow for presentation of the item at a full meeting of the Scurtiny Comission. Therefore, prior to finalising any transaction, reports will be presented to the Chair of Scrutiny Comission at a mimum, outlining the business case and rationale as well as any case for urgency in decision making.

Pro tem it will be assumed that all funding will be allocated to the 2020/21 financial year.

<u>Loans to local enterprises and third parties</u>

Loans to local enterprises or partner public sector bodies could be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans could be considered as an option to generate a yield. There would need to be a set of criteria drawn up which would need to be met before any loan was given. These might include:

- Whether or not the loan has security
- The term of the loan
- The profile of capital repayments
- The credit rating of the counterparty
- That total financial exposure to this type of loan is proportionate
- An allowed 'expected credit loss' model for assessing credit risk is adopted[1]
- Appropriate credit control arrangements to cover overdue payments are in place
- The local authority has formally agreed the total level of loans by type that it is willing to make, and the total loan book is within that self-assessed limit

The Council will not proactively seek to market loans to third parties but will consider offering loans to local enterprises, local charities, on a case by case basis, as and when approached.

The Council will also consider offering a loan, on a case by case basis, to any subsidiaries that may exist at a point time; in particular, this would apply should the Council have a subsidiary Housing Development Company.

The strategy in this area is set out below.

STRATEGY FOR 2020/21 – LOANS TO THIRD PARTIES AND SUBSIDIARIES

No money will be set aside within the Capital Plan unless and until a specific proposal is available for consideration.

Should an opportunity to offer a loan to a third party arise reports will be taken to Cabinet, and Council if required, to seek specific approval for that transaction.

All prospective debtor organisations will be either be located, or will have substantial operations, within the Borough.

Any asset created through the loan will be located within the Borough.

The purpose of the loan will support local economic growth as defined within the extant Corporate Plan.

The maximum total loan book the Council would manage will be £10m.

The maximum single loan to an individual organisation will be:

- Secured loan £5m
- Unsecured loan £2m

The maximum total value of unsecured loans will be £4m.

Loans will be offered on a commercial basis with rates offered dependent on risk; unsecured loans will attract higher interest rates. Rates offered will be in accordance with independent professional advice

[1] As defined within International Financial Reporting Standard 9 – in broad terms the likelihood of a creditor defaulting in future must be considered in accounting for impairment (compared to previous Standards in which accounting was based on actually incurred losses)

Due diligence will be carried out on prospective debtor organisations.

Generally, independent professional advice will be taken to ensure that the structure of loan finance offered, and the risk and return associated with that structure is appropriate.

Support for Subsidiaries

The Council does not currently have any wholly owned local trading or property (housing) companies. Should the Council decide to form a subsidiary then Council could decide to provide the funding required to support these organisations. As with providing loans to local enterprises and third parties there would need to be a set of criteria drawn up which would need to be met before any loan was given. This would mitigate the risk of loss to the Council.

However, the Council is actively considering the creation of a Property Development Company (probably with a housing focus). It may be appropriate to invest directly in the equity of a Property Development Company, rather than in the form of a loan, as described above. The basis of investment will be equivalent, as described below.

STRATEGY FOR 2020/21 - INVESTMENT IN A PROPERTY DEVELOPMENT COMPANY

No money has been allocated within the capital plan at present.

This funding *may* be in the form of an equity investment in the PDC, upon which dividends or and / or management fees will be due to the Council.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

At minimum, dividends and management fees will cover all of the Council's borrowing costs, in cases where the subsidiary company is wholly owned by the Council.

At minimum dividends and management fees will cover all of the Council's borrowing costs, plus a margin of in cases where a subsidiary company or joint venture is only partially owned by the Council.

Professional advice will be taken to ensure:

- Any loans are structured in the most advantageous way, having regard to risk, prospective returns, and tax implications
- MRP can be avoided or mitigated through the loan structure

Appropriate due diligence will be carried out on prospective partner organisations.

In total, the maximum investment in a PDC, whether by loan or equity investment, will be an amount of £10m.

Economic development and regeneration

COVID-19 has, as might be expected, had a significantly negative impact on businesses, which is reflected in both the physical environment and employment rates. In general, the Council would want to consider investment projects that benefit its communities, but it also has the opportunity to invest using the following specific arrangements:

- Town Deal: The Government has provided funding of up to £25m to support improvements to Loughborough town centre; release of some of this funding may be facilitated by providing 'match' funding from the Council[2]

- Enterprise Zone: The Council can support the development of infrastructure on its Enterprise Zone sites by taking out a loan to fund projects, repayable fro future business rates generated

The strategy as related to the these opportunities is set out below:

STRATEGY FOR 2020/21 - INVESTMENT IN THE TOWN DEAL AND REGENERATION PROJECTS

An amount of £15m to fund material investment in the Town Deal and regeneration projects will be included in the revised Capital Plan 2020-23 (subject to approval by Council).

Pro tem it will be assumed that this funding is phased £5m in 2021/22 and £10m in 2022/23.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

For Town Deal investment:

- Investment for projects will be allocated based on approvals through the Town Deal governance processes and subject to overarching central government approval (based on the Town Investment Plan).

Investment in other regeneration projects (ie. where funding is to come from this £15m allocation) will be approved by Cabinet on a case by case basis. In general, it is antipated that such projects will provide a positive financial return to the Council, but that a lower return than may be achievable with pure commercial investment will be acceptable.

STRATEGY FOR 2020/21 - INVESTMENT IN THE ENTERPRISE ZONE

An amount of £15m to forward fund investment in the Enterprise Zone (EZ) will be included in the revised Capital Plan 2020-23 (subject to approval by Council).

This total amount will be profiled for the 2020/21 financial year to ensure there is no impediment to investment opportunities (although in practice much of this allocation may be carried forward into future years).

The mechanism by which the investment will work is as follows:

1. The Council will take out a loan for the amount required to fund the project
2. Funds will be passed to the LLEP, who will then make a grant to the site sponsor[3] who will undertake the project delivery
3. The Council will cover the loan costs by retaining business rates generated by the project that would otherwise have been due to the LLEP (the LLEPP share of business rates generated is 85% as set out in the EZ agreement)

MRP treatment – generally, MRP will be calculated using the annuity method reflecting the life of underlying assets being long term and assumed at 40 years. However, where the loan is taken out on a repayment basis (as may be the case) then no MRP charge will be deemed necessary.

[2] Although it should be noted that the Town Deal also strongly encourages participation and investment from the private sector

[3] The site sponsors would be either Charnwood Campus (Jayplas) or Loughbourough University

Forward funding agreements will be:

- Based on business cases supported by the Council and subject to approval by the LLEP Board (where the Council has representation at present)
- Subject to Cabinet approval on a case by case basis

A condition of any forward funding agreement is that the loan will have to be underwritten by the site sponsor.

It is assumed that this forward funding be financed through Council borrowing, as and when investment is required. It is also expected that repayment of the loan via future business rates will create a small 'margin' versus the terms of the loan that will provide a positive contribution to the Council's finances.

Other commercial investments

Investment in other types of asset, or in larger and more complex arrangements, is not considered within this iteration of the Commercial Investment strategy. In practice, should opportunities arise, the Commercial Investment and Capital Strategies could be amended, subject to the approval of full Council, to allow emerging opportunities to be exploited. It can also be assumed that any significant investment would be subject to the specific approval by Cabinet.

5. Knowledge and Skills

5.1. The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully equipped to undertake the duties and responsibilities allocated to them. The Strategic Director for Corporate Services is responsible for recommending and implementing the necessary arrangements and does this by:

- Appointing individuals who are capable and experienced.
- Providing training and technical guidance to all individuals involved in the delivery of the treasury management function to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.
- Appointing a treasury management advisor and other professional advisors when required. This ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources. In addition, professional advisors are employed as required to ensure that the Council has access to the specialist skills and resources necessary to undertake commercial investment activities.

5.2. Treasury management advisors - The Council employs Link Asset Services (Treasury Solutions) to provide it with treasury management advice. The services provided by Link Asset Services (Treasury Solutions) include advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. Notwithstanding this, the final decision on all treasury matters remains vested with the Council. The services received from Link Asset Services (Treasury Solutions) are subject to regular review, including through periodic re-tendering.

6. Treasury management Policy Statement and Treasury Management Practices

6.1 The Council's Treasury Management Policy Statement and its Treasury Management Practices have been updated to reflect the requirements of the updated Treasury Management Code. They are presented for approval in the Treasury Management Strategy (Appendix B)

APPENDIX B

Charnwood Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2020/21

Including Commercial activities/non treasury activities

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 the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in generally low risk counterparties or instruments commensurate with the Council's risk appetite, ensuring the provision of adequate liquidity (cash balances) 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 longer term cash management may involve arranging long or short term loans, or using longer term cash flow surpluses. When prudent and econcomic any debt previously drawn may be restructured to meet Council risk or cost objectives.

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.

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."*

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes requires as from 2020/21 all local authorities to prepare a capital strategy report, which provides the following:

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

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

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

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

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

Where the Council has borrowed to fund any non-financial investment, there should also be an explanation of why borrowing was required and why the borrowing is justified in the light of MHCLG Investment Guidance and the CIPFA Prudential Code.

If any non-financial investment sustains a loss during in a financial year, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

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

1.2.2 Treasury Management reporting

The Council is required to receive and approve, as a minimum, three main treasury 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 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 will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **An annual treasury report** – This provides details 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 Audit Committee and the reports are also available for consideration by the Scrutiny Commission.

1.3 Treasury Management Strategy for 2020/21
The strategy for 2020/21 covers two main areas:

Capital issues
- Capital plans and prudential indicators;
- Minimum revenue provision (MRP) policy.

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

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny (which largely falls under the ambit of the Audit Committee). Suitable training is provided for members on a periodic basis as part of the wider Member training programme. Officers are also available to train and advise members on an ad hoc basis

outside of this programme if required. The training needs of treasury management officers are reviewed annually as part of the Personal Review process

1.5 Treasury management consultants

The Council uses Link Asset Services Treasury Solutions as its external treasury management advisors. The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the service of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, that from our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to access specialist skills and resources. Officers will ensure that the terms of 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 may include both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties in the future. The commercial type investments require specialist advisers, and the Council would appoint suitably qualified specialist advisers in relation to this activity when required.

2. THE CAPITAL PRUDENTIAL INDICATORS 2021/22-2022/23

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

2.1 Capital expenditure

The Council's capital expenditure plans are the key driver of Treasury Management activity. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	***2019/20 Actual £'000***	***2020/21 Revised Estimate £'000***	***2021/22 Revised Estimate £'000***	***2022/23 Revised Estimate £'000***
General Fund - general	2,236	11,789	3,208	2,444
Commercial Investments	0	25,000	0	0
Enterprise Zone	0	15,000	0	0
Regeneration	0	5,000	10,000	0
HRA	8,208	8,941	7,381	7,724
Total	**10,444**	**65,730**	**20,589**	**10,168**

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	***2019/20 Actual £'000***	***2020/21 Revised Estimate £'000***	***2021/22 Revised Estimate £'000***	***2022/23 Revised Estimate £'000***
Total Capital Expenditure as per above table	**10,444**	**65,730**	**20,589**	**10,168**
Financed by:				
Capital receipts	1,120	6,817	2,384	1,751
Capital grants	857	2,676	1,274	1,143
Capital reserves	4,595	630	0	0
Revenue Contributions	3,872	8,207	6,931	7,274
Internal borrowing	0	2,400	0	0
External borrowing	0	45,000	10,000	0
Total Funding	**10,444**	**65,730**	**20,589**	**10,168**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). This 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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The resultant CFR projections are set out in the table below. These reflect the Revised Capital Plan (which is subject to approval by Council 9 November 2020) and the main body of the Capital Strategy report, and comprise:

- Part funding of the Environmental Services fleet in 2020/21 through Internal borrowing (£2.4m)
- Creation of a fund to purchase Commercial Property (£25m), all profiled for 2020/21
- Creation of a Regeneration fund to take advantage of opportunities arising from the Town Deal, and others that may arise; £15m split £5m in 2020/21 and £10m in 2021/22

- Creation of a £15m fund – all profiled in 2020/21 – to enable forward funding within the Enterprise Zone (to be repaid through business rates generated)

Capital Financing Requirement	*2019/20 Actual £'000*	*2020/21 Revised Estimate £'000*	*2021/22 Revised Estimate £'000*	*2022/23 Revised Estimate £'000*
CFR - Fleet	0	2,400	2,400	2,400
CFR – Commercial Activites ActivitiesActivities	0	25,000	25,000	25,000
CFR – Regeneration	0	5,000	15,000	15,000
CFR – Enterprise Zone	0	15,000	15,000	15,000
CFR – HRA	81,820	81,820	81,820	81,820
Total CFR	**81,820**	**129,220**	**139,220**	**139,220**
Movement in CFR represented by:				
Net financing need as per 2.1 for the year (above)	0	47,400	10,000	0
Less MRP/VRP and other financing movements	0	0	(968)	(1,133)
Movement in CFR	**0**	**47,400**	**9,032**	**(1,133)**

2.3 Core Funds and Expected investment balances

The application of resources (capital receipts, Capital Reserves, Revenue Contributions to Capital, Capital Grants) to finance Capital expenditure will have an ongoing impact on investments unless resources are supplemented each year by new resources (assets sales, grants etc). Detailed below are estimates of the year end balances held for each resource.

The Revised Capital Plan (subject to approval of Council on 9 November 2020) runs through to 31 March 2023. Funding for this capital expenditure is as per table above in 2.1. Any additional proposals for capital expenditure will require a capital appraisal and business plan to be considered by Senior Leadership Team and Cabinet approval. The funding position is regularly reviewed and if there is a need to borrow, this will require a further appraisal and a revision to the Capital programme and the Treasury Management Strategy and will therefore require additional Council approval.

2.4 Minimum revenue provision (MRP) policy statement

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

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

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2020 the total VRP and overpayments were £0m.

The Council has for the General Fund a CFR requirement and therefore will need to make a MRP provision. As the Council is likely to fund capital expenditure from borrowing in the near future and as there is a statutory requirement to have an approved MRP Statement in place in advance for each year, an MRP policy has been included in this Treasury Management Strategy as Appendix B(2). Council is asked to adopt and approve the MRP policy statement.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the capital expenditure of the Council over the next 3 years. 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. This will involve both the management 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 Current portfolio position

One of the key indicators is that the Council's 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 2020/21 and the following two financial years. This is to ensure that the Council conducts its activities within well-defined limits. Also the indicator allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes or speculative purpose.

The table below shows the forward projections for external debt against the underlying need to finance capital expenditure through borrowing or other long term liabilities, i.e. the CFR, highlighting any over or under borrowing.

	2019/20 Actual £'000	***2020/21 Estimate £'000***	***2021/22 Estimate £'000***	***2022/23 Estimate £'000***
External Debt at 1 April	81,190	81,190	128,590	138,590
Expected change in Debt	0	47,400	10,000	0
Actual debt at 31 March	**81,190**	**128,590**	**138,590**	**138,590**
Capital Financing Requirement	81,820	129,220	139,220	139,220
Under/(over) borrowing	**630**	**630**	**630**	**630**

The table shows that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments and existing plans. Within the above figures there is some £57m debt that relates to the finance of the Environmental Services fleet, new commercial activities and non-financial investment.

It is worth reiterating that whilst the above projections are consistent with the Revised Capital Plan, as the covering Cabinet report notes, if investment opportunities of sufficient quality do not arise in line with the above projections then the required borrowing associated with these investments would not take place.

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 2020/21 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 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 report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary.

This is the limit beyond which external debt is not normally expected to exceed. 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	***2019/20 Actual £'000***	***2020/21 Estimate £'000***	***2021/22 Estimate £'000***	***2022/23 Estimate £'000***
Debt	81,190	81,190	81,190	81,190
Commercial Activities/Non-financial investments	0	47,400	57,400	57,400
Other long term liabilities	0	0	0	0
Total	**81,190**	**128,590**	**138,590**	**138,590**

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 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.

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

It should be noted that the authorised limit (as shown in the table below) has been set based on the current capital expenditure and funding plans. The Council has decided to take forward commercial investment plans as part of the investment Strategy report to Cabinet on 19th September and following this the authorisaton limits have increased by £15m, these were recommended to Council as part of the 14th November Treasury Management Mid year cabinet report, and it is also recommended that the limits increase further to cover projected additional borrowing in 2021/22 of £10m and £5m in 2022/23.

The authorised limit will be amended as follows (assuming the Capital Strategy is approved by Council) :

Authorised limit	***2019/20 Actual £'000***	***2020/21 Estimate £'000***	***2021/22 Estimate £'000***	***2022/23 Estimate £'000***
Debt	96,000	96,000	96,000	96,000
Commercial Activities/Non-financial investments	0	47,400	57,400	57,400

Authorised limit	*2019/20 Actual £'000*	*2020/21 Estimate £'000*	*2021/22 Estimate £'000*	*2022/23 Estimate £'000*
Other long term liabilities	0	0	0	0
Total	**96,000**	**143,400**	**153,400**	**153,400**

In October 2018 the Government published the "Limit of Indebtedness (Revocation) Determination 2018". This removed the HRA debt cap which was £88,770kand therefore the HRA is able to determine its own level of borrowing in alignment with prudential guidelines. This means that it can borrow providing it can demonstrate that the interest and loan repayments are affordable, within the overall HRA.

3.3 Prospects for interest rates

There are limited changes to Treasury Advisor Bank Rate forecasts over recent months.

Similarly, there is very little change to forecasts for PWLB rates and only by a few changes of 10 bps.

We have updated our previous forecasts for LIBID rates as financial markets have moved lower since our previous newsflash. However, as LIBOR rates will cease from the end of

2021, there are no forecasts for 2022 and 2023. We will be continuing to look at market developments in this area and will monitor these with a view to communicating with you when agreement is reached on how to replace LIBOR.

There is a slight change to interest rate forecasts table below traditionally, Treasury Advisors have used 3m LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that 3m LIBOR is currently running below 10bps, that would give a figure of around 0% to somewhere modestly into negative territory. However, the liquidity premium that is still in evidence at the short end of the curve means that 3m rates actually being achieved by investors is still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 10bps should be achievable.

PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012. The table below is for PWLB Certainty Rates for non- HRA borrowing (currently gilts plus 180 basis points). The Treasury consultation on reviewing PWLB margins and lending ended on 31st July. We expect that the Non-HRA Certainty Rate will be subject to revision downwards post the PWLB Consultation Paper conclusion but we don't know the precise timing of that i.e. would expect it to be somewhere between this August and March next year.

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

Link Group Interest Rate View 11.8.20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
6 Month LIBID	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
12 Month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

The coronavirus outbreak has done huge economic damage to the UK and around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting on 6th August, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a falling trend during the year up until the coronavirus crisis hit western economies. Since then, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies and moved cash into safe haven assets i.e. government bonds. However, major western central banks started massive quantitative easing purchases of government bonds and this has acted to maintain downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance, in "normal" times would have caused bond yields to rise sharply. At the close of the day on 28th August, all gilt yields from 1 to 4 years were in negative territory, while even 25-year yields were at only 0.97% and 50 year at 0.82%. Meanwhile, equity markets have enjoyed a rebound since the lows of March as confidence has started to return among investors that the worst is over and recovery is now on the way.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear that the Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year

3.4 Investment and borrowing rates

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

  [The following will be updated for the final version of the Cabinet report]

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

rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%.

- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.5 Borrowing strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances both internally and externally.

When the Council invests in commercial property it is likely that this will be funded by external borrowing in the long term. In the short to medium term however, the Council is able to temporarily utilise its cash balances as an alternative to external borrowing i.e. internally borrow. This is considered to be an effective strategy at present as:

- It enables the Council to avoid significant external borrowing costs in the short to medium term (i.e. making it possible to avoid net interest payments); and
- It mitigates the risks associated with investing cash.

3.6 Policy on borrowing in advance of need

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

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

3.7 Debt rescheduling

At a point in time, short term borrowing rates may be considerably cheaper than longer term fixed interest rates. In this event there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify whether there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

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

The Council currently has one long term market debt which matures in 2024 and it carries a current interest rate of 11.625%. The cost of replacing this debt is prohibitive and this position is unlikely to change in the next three years.

The £79.19m of HRA debt is at fixed interest rates and the twenty four loans are repayable from 2024 to 2061. Their maturity dates are set to match income and expenditure levels in the HRA Business Plan and they will be reviewed in line with that plan. However, the primary objective of the plan over the next few years is to invest in the Council's housing stock and this position is not expected to change in the near future. Therefore these debts are unlikely to be rescheduled over the next three years. All rescheduling will be reported to the Cabinet at either the half year or full year report stage.

3.8 Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

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

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

- MHCLG's Guidance on Local Government Investments ("the Guidance")

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018
- The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

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

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking 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 12B (3) 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.
- **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 investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments are revised from £25m to a total of £30m, (see paragraph 4.3).

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 the amount of 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 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 2018)

    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.

    Changes in risk management policy from last year.
    The above criteria has changed from last year due to a new investment Strategy.

    Investment instruments identified for use in the financial year are listed in appendix B (3) under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.2 Creditworthiness policy

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

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

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

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

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

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

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

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

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

UK banks – ring fencing

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

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

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

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch, other than the UK where the Council has set no limit. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 12B (4). This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

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 for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow (amend as appropriate), 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.

T h e suggested budgeted investment earnings rates for investments up to about three months duration in each financial year for the next five years are as follows: -

Average earnings in each year	Now	Previously
2020/21	0.10%	1.0%
2021/22	0.10%	1.0%
2022/23	0.10%	1.50%
2023/24	0.25%	1.50%
2024/25	0.75%	1.75%
Long term later years	2.00%	2.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields is unchanged. Negative, (or positive), developments could significantly impact safe haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

On the assumption that the UK and EU agree a Brexit deal by the end of 2019 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

Additionally the Council currently has loans to other Local Authorities and has invested in two property funds in 2018/19 following a selection process assisted by our Treasury Advisors Link. Both of these investment types are for periods of greater than 365 days and it is anticipated that returns on investments will be above the rates shown for the proportion of funding invested for these longer periods. Potential sums to be invested in this way are given below and the current snapshot of investments held for over 365 days is shown in Appendix 12B (6).

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 > 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested > 365 days	£25m	£30m	£30m

4.5. Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio. For cash investments this will be the 3 month London Interbank Bid Rate (LIBID) which matches the weighted average time period of our current cash investments. Should the Council invest in Property Funds an appropriate additional benchmark will be added to measure the performance of these investments. This will be reported in the next available treasury report to Members.

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.

APPENDICES FOR APPENDIX 12B

B (1). Economic Background

B (2). Minimum Revenue Provision Policy

B (3). Treasury management practice 1 – credit and counterparty risk management

B (4). Approved Countries for Investment

B (5). Approved Brokers for investments

B (6). Current Investments as at 10th September 2020

B (7). Treasury management scheme of delegation

B (8). The treasury management role of the section 151 officer

APPENDIX B(1)

ECONOMIC BACKGROUND

As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in **GDP** in the first half of 2020 of 28% was revised upwards to 23%. This is still one of the largest falls in output of any developed nation but is only to be expected as the UK economy is heavily skewed towards consumer facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
- It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). But even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and forward guidance.

The MPC still expects the £300bn of **quantitative easing** purchases announced between the March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank can now just sit on its hands as the economy is recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the potential for a second wave of the virus to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this will limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down in the furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. If the Bank felt it did need to provide further support to recovery, then it is likely that the weapon of choice would be more QE. Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. There will also be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover their previous level of use for several years or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

One new key addition to **forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistent if it takes no action to raise Bank Rate. In this connection, there has been much discussion by forecasters of the main central banks moving to an average inflation rate target i.e. periods above the target are acceptable.

The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". They state that in their assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the

sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%

EU. The economy was recovering well towards the end of Q2 after a sharp drop in GDP. However, there are growing fears of a second wave of the virus that could cause a renewed collapse in activity.

US. The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery should continue over the coming months and employment growth should pick up again too. The increase in tension between the US and China is likely to lead to a lack of momentum in developing on the initial positive moves to agree a phase one trade deal.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2. However, this was boosted by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to poor economic returns and so lead to a further misallocation of resources which will weigh on growth in future years.

Japan. It looks as if a second wave of the virus is gaining momentum and could damage economic growth further.

World growth. Latin America and India are currently hotspots for virus infections. World growth will be in recession this year.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the virus.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates while the Bank of England has ruled out the use of negative interest rates and increases in Bank Rate are likely to be some years away. However, it is always possible that safe haven flows, due to unexpected developments in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

UK / EU trade negotiations – if it were to cause significant economic disruption and a major downturn in the rate of growth.

Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of weaker EU states, especially Italy. In addition, the EU recently agreed a €750bn support package for weaker states. These actions will shield Italy for the next year or so. However, the cost of the virus crisis has added to Italy's already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable.

Weak capitalisation of some **European banks**, particularly Italian banks.

German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021.

Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

Post-Brexit – if agreement was reached all round that removed all threats of economic disruption between the EU and the UK.

The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

TreasuryAdvisor's ForecasForecast

We do not think that the MPC will increase Bank Rate during the current and next two financial years as we expect the economy to take a prolonged period to recover momentum after the Covid crisis.

Forecasts for average investment earnings beyond the three year time horizon will be heavily dependent on economic and political developments.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently, although there are likely to also be periods of sharp volatility from time to time.

Our forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU, (apart from the departure of the UK), within our forecasting time period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out below.

PWLB debt	Current borrowing rate as at 10.8.20	Target borrowing rate now (end of Q3 2020)	Target borrowing rate previous (end of Q3 2020)
5 year	1.74%	1.90%	1.90%
10 year	1.96%	2.10%	2.10%
25 year	2.50%	2.50%	2.50%
50 year	2.30%	2.30%	2.30%

Borrowing advice: since November 2018, PWLB rates have fallen significantly up until 100 bps were added to all PWLB rates in October 2019. As our long-term forecast for Bank Rate is 2.00%,

and PWLB certainty rates are close to or above 2.00%, there is little near-term value in borrowing from the PWLB at present, particularly until it is clear what the new non-HRA borrowing rate will look like after HM Treasury concludes its review of the PWLB Consultation Paper responses. Accordingly, clients will need to reassess their risk appetite in terms of either seeking cheaper alternative sources of long-term borrowing or switching to short term borrowing in the money markets until such time as the Government might possibly reconsider the margins charged over gilt yields. Please speak to your CRM to discuss alternative borrowing sources available.

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields is unchanged. Negative, (or positive), developments could significantly impact safe haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

APPENDIX B(2)

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. It should cover the gap between the Capital Financing Requirement (CFR) and grant income and capital receipts.

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP). Any planned overpayments must be recorded clearly in the MRP statement.

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year; hence, the inclusion of this policy within the Capital Strategy.

The Council is required to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 40 years can be used, except freehold land which can be 50 years.

In calculating MRP the Council must base its calculation on methods set out within 'guidance' issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to this guidance. The extant guidance distinguishes between borrowing incurred prior to 2008 and that incurred in subsequent years. The Council did not incur borrowing to finance assets prior to 2008 and hence its options on which its MRP calculation is based are restricted to Options 3. and 4. as set out in guidance, as below:

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the useful life of the asset.

There are two main methods by which this can be achieved, as described below.

(a) Equal instalment method

MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

Where:

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements.

B is the total provision made before the current financial year in respect of that expenditure.

C is the inclusive number of financial years from the current year to that in which the estimated useful life of the asset expires.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments

to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation method

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

Selected Charnwood calculation methods

- For assets with a life of 10 years or less, the straight line asset life method (Option 3 (a)) will be used
- For assets with a life in excess of 10 years, the annuity asset life method (Option 3 (b)) will be used

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Council's Chief Financial Officer (this is the Council's designated s151 Officer, a role currently held by the Strategic Director of Corporate Services), with regard to the statutory guidance and advice from professional valuers if required.

The Chief Financial Officer may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.

Generally, the straight line asset life method is considered appropriately prudent for assets with a relatively short term life (such as most types of plant and equipment). Assets purchased with a longer life will usually be land and buildings and hence an annuity asset life method will be used reflecting that such assets will in practice have a value at the end of the designated asset life. One aspect of the annuity asset life method is that it generates MRP payments that are relatively low in early years which then increase over the asset life. This structure of MRP is well-suited to commercial properties as the increase in MRP could be expected (broadly) to mirror increasing rental income created by periodic rent reviews.

The designated asset life of land and buildings, including commercial property for investment purposes, will usually be set at 40 years, in accordance with the guidance and in common with other local authorities.

In line with the extant guidance MRP will be not be charged until the later of the year after capital expenditure is incurred or the year after the asset becomes operational

The calculation of MRP is also subject to the following details:

- An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.). Asset life will be determined by the Chief Finance Officer. A standard schedule of asset lives will generally be used (as stated in the Statement of Accounts accounting policies).
- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.

- Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Finance Officer; this may includecertain circumstances relating to investment (forward funding) within the Enterprise Zone and where the underlying loan is taken out on a repayment basis. In this case no MRP charge will be deemed necessary assuming the loan term does not exceed the asset life

APPENDIX B(3)

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

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year** with the exception of other Local Authorities which have a maximum of 2 years and investments in Property Funds which are longer-term investments. All investments will meet the minimum 'high' quality criteria where applicable.

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. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria /	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	Unlimited	6 months
UK Government gilts	UK sovereign rating	Unlimited	12 months
UK Government Treasury bills	UK sovereign rating	Unlimited	12 months
Bonds issued by multilateral development banks	AAA	Unlimited	6 months
Money Market Funds (CNAV, LVAV & VNAV)	AAA	£10m any one institution and £30m in total	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£7m any one institution and £18m in total	Liquid
Local authorities	N/A	£5m any one institution and £20m in total	5 Years
Property Funds	N/A	£5m in total	20 Years
Term deposits with banks and building societies	Purple	£8m any one institution and £12m in total	Up to 12 months
	Blue	£7m any one institution and £12m in total	Up to 12 months
	Orange	£8m & (£12m for HSBC only) any one institution and £25m in total	Up to 12 months
Term deposits with banks and building societies	Red	£8m any one institution and £40m in total	Up to 6 Months
	Green	£6m any one institution and £20m in total	Up to 100 days
	No Colour	Nil	Not for use

Non Specified Investments: In light of the current and forecast low interest rates on specified investments the Council included the opportunity to invest in established Property Funds run by Fund Managers in a previous Treasury Management Strategy. These funds are longer term investments (typically 2-5 years) and give potentially higher returns than more liquid investment categories. Investments totaling £5m have been made in Property Funds since 2018. These investments will form part of the £30m limit for investments of over 365 days duration.

The Council will also add investments with Housing Associations of up to £5m, for up to a two year period. Prior to this the Council will undertake a separate due diligence exercise to ensure they have the minimum credit rating requirement and generally satisfy the Council's lending policuies.

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, a review of the accounting implications of new transactions will be carried prior to any investment decision.

APPENDIX B(4)

APPROVED COUNTRIES FOR INVESTMENTS @14/09/2020

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

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

APPENDIX B(5)

List of Approved Brokers for Investments

The list below represents approved brokers that the Council will use to facilitate its investment strategy when necessary;

King and Shaxson

Tradition (UK) Ltd

RP Martin

Link Asset Services Agency Treasury Service

APPENDIX B (6)

Current Investments as at 10th September 2020 (for information only).

For illustrative purposes only the Council's investments as at 10th September 2020 are set out below. Please note that these investments alter on a daily basis.

Institution	**Colour**	**Amount invested £m**	**Transaction Limit**	**Maturity Date**	**Time Limit**
SloughCouncil	N/A	2,000	5,000	01/04/2020	5 Years
Wyre Forest District Council	N/A	2,000	5,000	09/10/2020	5 Years
Liverpool City Council	N/A	2,000	5,000	14/10/2020	5 Years
Santander	Red	8,000	8,000	180 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	2,500	35 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	2,500	95 Day Notice	6 Months
Standard Chartered Bank	Red	5,000	8,000	183 Days	6 Months
HSBC Bank	Orange	5,000	12,000	3 Months	12 Months
HSBC Bank	Orange	7,000	12,000	31 day Notice	12 Months
Money Market Funds	AAA Rated	27,840	30,000 in total	1 Day	12 Months
Property Funds	N/A	5,000	5,000 in total	N/A	20 Years
TOTAL		**68,830**			

APPENDIX B(7)

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy
- statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing monitoring reports and acting on recommendations;

(iii) Audit Committee/Overview Scrutiny Board

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX B(8)

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- 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
- 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

AUDIT COMMITTEE – 22nd September 2020

Report of the Head of Strategic Support

Part A

ITEM 7 INTERNAL AUDIT PROGRESS REPORT

Purpose of Report

The report summarises the progress against outstanding audits for the 2019/20 Audit Plan, and the ongoing work of the Internal Audit team in light of the current COVID-19 situation. Furthermore, it outlines the key findings from final audit reports and details of follow-up work completed since the previous progress report considered by the Audit Committee at their previous meeting.

Recommendations

That the Committee notes the progress report set out in Appendix 1.

Reason

To ensure the Committee is kept informed of progress against the approved Internal Audit Plans.

Policy Justification and Previous Decisions

The Accounts and Audit Regulations 2015 state (Regulation 5 (1)) that the relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards and any appropriate guidance.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report:

Financial Implications

None

Risk Management

There are no specific risks associated with this report

Background Papers:	Final Internal Audit Reports
Officers to contact:	Adrian Ward, Head of Strategic Support 01509 634573 adrian.ward@charnwood.gov.uk Lisa Marron, Audit Manager 01509 634804 lisa.marron@charnwood.gov.uk

Part B

The details regarding this report are as set out in the Appendix.

Appendices

Appendix 1 – Audit Committee Progress Report May 2020

INTERNAL AUDIT SHARED SERVICE

Charnwood Borough Council

Internal Audit Progress Report 2020/21 Q1

1. Introduction

1.1 Internal Audit is provided through a shared service arrangement by North West Leicestershire District Council. The assurances received through the Internal Audit programme are a key element of the assurance framework required to inform the Annual Governance Statement. The purpose of this report is to update on Internal Audit activity during 2020/21 Q1.

2 Internal Audit Plan Update

2.1 During Q1 Internal Audit activity for CBC has focussed on:

- Developing and implementing a post payment assurance framework for CBC COVID19 Business Grants – we have recovered 13 erroneous payments totalling £180,000 to date with a further three on repayment plans.
- Pre-payment checks of Discretionary Business Grants.
- Completing any outstanding work from 2019/20 where possible.
- Aligning shared internal audit service approach and documents.

2.2 In consultation with the Senior Leadership Team the annual audit plan as agreed on 11th March 2020 has been revised and a new plan has been prepared. This new plan reflects the significant changes to ways of working for services during 20/21 and the need to reprioritise audit resources on key financial systems and risks, including the work on the Covid-19 Business Grants. Where possible audit work will go ahead as planned in Q2 however there has had to be some changes for Q3-Q4. The new plan which Internal Audit will be working towards and reporting against is included at Appendix A, with the original plan included at Appendix B for information.

2.3 The following 2019/20 audits were issued in final during Q1:

- Capital Accounting (targeted audit) – Substantial Assurance
- Creditors – Moderate Assurance
- Responsive Repairs – Materials Ordering and Stock Control - Moderate Assurance
- Voids Managements – Moderate Assurance
- Absence Management – Moderate Assurance
- IT Helpdesk/Demand Managements – Substantial Assurance

The Strategic Communications and Debtors audits are at the report drafting stage. As Audit Committee members receive copies of the final audit reports, only the overall assurance and recommendations have been included in Appendix C.

2.3 The Audit Manager, IT Delivery Manager and IT Auditor met to discuss and agree the following changes to the IT Audit Plan to ensure it focusses on the new risks post Covid-19.

Original 20/21 IT Audits	Revised 20/21 IT Audits	Rationale
Change Control	Office 365 Security and Remote Working	Change Control considered low risk as

		same system in use and has been covered in previous audits with no significant concerns raised. The new audit will address the new risks with the increased remote working post Covid-19. The audit will take place in Q2.
Application Controls	Focus on updates and patching in remote working environment.	Significantly increased home working. Planned for Q3.
3rd Party Supplier Management	As planned in Q4.	

3.0 Outstanding Recommendations

3.1 Head of Service reports have been issued as normal however some recommendations are not being progressed due to other services priorities, in particular the response to Covid-19. A summary table below and more details of those not implemented are in Appendix D.

	Priority Level	**Implemented**	**Not Implemented**	**No Further Action**
APR – JUN-20	*High*	0	1	0
	Medium	0	4	3
	Low	10	4	1
Percentages		44%	39%	17%

Please note that from Q2 we will not formally follow up and report on progress against low priority recommendations, in line with the IA shared service approach.

4.0 Internal Audit Performance Indicators

4.1 Progress against the performance indicators is included in Appendix E. As internal audit work during Q1 has been as detailed in paragraph 2.1 above there has not been any progress against the original 2020/21 plan. However, as work starts formally on the revised 2020/21 plan during Q2 the position will improve.

APPENDIX A

2020/21 INTERNAL AUDIT PLAN (REVISED)

AUDIT AREA	TYPE	TIMING	PLANNED AUDIT DAYS	COMMENTS
STRATEGIC AND PRIVATE SECTOR HOUSING				
Disabled Facilities Grants	Certification	Q2	3	Will go ahead as planned in Q2.
Choice Based Lettings	Audit	C/f from 19//20	8	Asked to complete in Q4 as new system still being implemented
LANDLORD SERVICES				
Fire Safety and Management	Audit	Q4	8	Limited resources in service to support audit. Asked to put back to later in year Q4.
Gas Servicing Contract Monitoring	Audit	Q4	8	Limited resources in service to support audit. Asked to put back to later in year Q4.
Asbestos Management	Audit	Q4	8	Limited resources in service to support audit. Asked to put back to later in year Q4.
PLANNING AND REGENERATION				
Development Control	Audit	Q2	10	Engagement Planning
Tree Preservation Orders	Audit	Q2	6	Engagement Planning
CUSTOMER EXPERIENCE				

Benefits	Audit	Q3/4	8	Full audits of all (10) key financial systems now required.
Council Tax	Audit	Q3/4	8	Full audits of all (10) key financial systems now required.
NNDR	Audit	Q3/4	8	Full audits of all (10) key financial systems now required.
Income Collection	Audit	Q4	8	Full audits of all (10) key financial systems now required.
FINANCE AND PROPERTY				
Creditors	Audit	Q3	8	Full audits of all (10) key financial systems now required.
Debtors	Audit	Q4	8	Full audits of all (10) key financial systems now required.
Main Accounting System and Budgetary Control	Audit	Q4	8	Full audits of all (10) key financial systems now required.
Payroll	Audit	Q3	8	Full audits of all (10) key financial systems now required.
Rent Accounting	Audit	Q4	8	Full audits of all (10) key financial systems now required.
Treasury Management	Audit	Q3	8	Full audits of all (10) key financial systems now required.
Right to Buy	Audit	Q2	10	Engagement Planning

APPENDIX B

2020/21 INTERNAL AUDIT ANNUAL PLAN AS AGREED 11th MARCH 2020

AUDIT AREA	TYPE	TIMING	PLANNED AUDIT DAYS	STATUS AS AT 31st AUGUST
STRATEGIC AND PRIVATE SECTOR HOUSING				
Disabled Facilities Grants	Certification	Q2	3	Going ahead as planned
Acquisitions Policy	Audit	Q2	8	Put on hold at request of service manager, likely deferral to 21/22.
Choice Based Lettings	Audit	C/f from 19//20	N/A	Asked to complete in Q4 as new system still being implemented
LANDLORD SERVICES				
Fire Safety and Management	Audit	Q3	8	Limited resources in service to support audit. Asked to put back to later in year Q4.
Gas Servicing Contract Monitoring	Audit	Q3	8	Limited resources in service to support audit. Asked to put back to later in year Q4.
Asbestos Management	Audit	Q3	8	Limited resources in service to support audit. Asked to put back to later in year Q4.
PLANNING AND REGENERATION				
Development Control	Audit	Q2	10	Going ahead as planned.

Tree Preservation Orders	Audit	Q2	6	Going ahead as planned.
Building Control	TBC	Q2/3	8	Remove from plan as shared service planned from Jan 2021. Consider as part of 21/22 planning.
CLEANSING AND OPEN SPACES				
Open Spaces Contract	Audit	Q3	10	Removed from plan to prioritise audit resources where needed. Consider as part of 21/22 planning.
LEISURE AND CULTURE				
Town Halls	Audit	Q2	10	Remove from plan as Town Halls closed from March 2020. Consider as part of 21/22 planning.
FINANCE AND PROPERTY				
Key Financial Systems	Audit	Q3/4	52	Full audits of all key financial systems required following significant change to ways of working.
Right to Buy	Audit	Q1	10	Timing of audit delayed but will go ahead.
Commercial Property Project	Audit	Q4	10	Keep under review following changes to strategy.
STRATEGIC SERVICES				
Corporate Health and Safety Arrangements	Audit	Q2/3	12	Removed from plan to prioritise audit resources where needed. Consider as part of 21/22 planning.
CROSS CUTTING				

Capital Programmes	Audit	Q3	12	Keep under review following changes to strategy.
Affordable Housing	Audit	Q2	10	Removed from plan to prioritise audit resources where needed. Consider as part of 21/22 planning.

SUMMARY OF FINAL AUDIT REPORTS ISSUED DURING 2020/21 Q1 **APPENDIX C**

CAPITAL ACCOUNTING 2019/20

Overview

ASSURANCE RATING – SUBSTANTIAL ASSURANCE	CORPORATE SIGNIFICANCE – HIGH

The review found that the systems and controls in place for appraising, reporting and monitoring of capital budgets are robust and the recent change in procedure does not weaken the internal control environment.

This was a targeted 2-day audit and the reported findings are based on a comparison between the new and old process and testing against the monitoring timetable. A full audit on Capital Programmes is scheduled in quarter 3 of the 2020/21 audit plan.

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. The financial procedure rules no longer reflect the new process (7.1.4 and 7.2.5 refer to the Capital Programme Team).	Officers not familiar with the new procedure may follow the old one.	1. Financial Procedure Rules are updated to reflect new practices.	Low	Agreed as per recommendation. 7.1.4 and 7.2.5 of the Financial Procedure Rules will be updated as part of a full review of the Financial Procedure Rules.	Head of Finance and Property Services	August 2020

CREDITORS 2019/20

Overview

ASSURANCE RATING – MODERATE ASSURANCE	CORPORATE SIGNIFICANCE – HIGH

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no serious weaknesses in the internal control environment within the areas reviewed, there is a need to further enhance controls and to improve the arrangements for managing risks.

Due to lockdown restrictions, imposed by the Government during the Covid-19 crisis, there were elements of testing that we were unable to complete as these require access to documentation in the Council Offices. These areas are amendments to standing data and the authorisation of BACS and cheques payments.

Based on the testing that could be undertaken a number of areas of concern have been highlighted in respect of the processing and issuing of cheques, monitoring of aged creditors and there were a number of orders identified, 6/30, that had been sizably under-estimated resulting in overspending.

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. Testing of a sample of 30 orders highlighted that 6 had exceeded the original order value by at least 7% but up to 528% in one case. Additionally, 5 of these 6 orders had been raised in previous financial years (2017 & 2018).	This could lead to overspending in the budgets.	1. Orders that have not been fulfilled during the financial year are cancelled and new orders are raised to ensure that transactions are correctly recorded	Low	The procedures in respect of open orders will be reviewed to ensure that any that have not been fulfilled during the financial year are cancelled at year end and any carried forward order commitments are reviewed within a specific time period following year end.	Head of Finance/Senior Payments Officer	September 2020
2. Due to the staffing arrangements within the payments section it is not possible for adequate segregation of duties to be in place, i.e. there is no independence between the	This process is open to error or fraud.	2. The production and independent review of an exception report in relation to amendments to standing data is put in place.	Medium	Liaise with the Technical and Project Accountant to establish whether a report can be created in Unit 4 that can pick up new suppliers and changes to supplier details in a set period.	Head of Finance/Senior Payments Officer	September 2020

production and distribution of cheques, additionally the staff within the section have access to amend standing data within the payments system.				If possible, put in place procedures for an independent review of the report to be undertaken on a regular basis.		
3. When cheques have been cancelled no evidence is retained to support the cancellation. Additionally, there is no process in place to destroy cancelled cheques.	Process is open to error or fraud.	3. A process is introduced to ensure that cancelled cheques are destroyed in a timely manner. The process should also include a log detailing cheque numbers and reasons for destroying.	Low	Agreed as per recommendation	Head of Finance/Senior Payments Officer	September 2020
4. A review of the cheques issued highlighted that during the period between 09.04.19 and 13.03.20, 3625 cheques were produced.	Not cost effective.	4. A full review of the way in which payments are made is carried out to ensure that the authority is making payments in the most timely and cost-efficient ways.	Low	A process has been put in place to pay council tax refunds, which constitute the majority of the cheques produced, via BACS, during this Covid-19 lockdown period. A review of remaining cheque payment will be undertaken.	Head of Finance/Senior Payments Officer	September 2020

RESPONSIVE REPAIRS – MATERIALS ORDERING AND STOCK CONTROL 2019/20

Overview

ASSURANCE RATING – MODERATE ASSURANCE	CORPORATE SIGNIFICANCE – HIGH

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no critical weaknesses in the internal control environment within the areas reviewed, there is a need to further enhance controls and to improve the arrangements for managing risks.

Based upon the work undertaken during the review, it was identified that there are data quality issues concerning data held within Cloud Dialogs Service Connect Platform and the stock catalogue held for stock takes needs to be updated to reflect the current basket prices from the supplier. There are no relevant, timely and accurate policies and procedures in place to provide staff with effective guidance on the processes such as returns that provide step by step and easy to follow instructions. Van stocktakes are undertaken two times per year or as an operative leaves, however, there is no basis to compare the van stock to what is recorded on the system as it is only a count of what stock is contained within a van at a point in time.

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. There is no written procedure in place for stock materials handling and stock control. We would expect to see clear written procedures in place for the ordering, handling and control of stock, that these procedures are made available to the relevant members of staff and that the appropriate level of training has been undertaken to raise awareness amongst the	Without written procedures in place there is a risk that employees do not have a reference point for guidance and as a result there is a lack of awareness amongst employees as to the processes that should be undertaken for responsive repairs.	1.1 Management should ensure that there are written procedures in place for stock materials handling and stock control, which give guidance to staff on van stock takes, processing job orders, the goods returns process and updating the Service Connect system. 1.2 The procedures should be made available to relevant staff	Medium Medium	1.1 Written procedures will be put in place for: Stock Material Ordering and Handling and Stock Control (including write offs). 1.2 Appropriate Training will be given	Principle Officer – Repairs and Maintenance Principle Officer – Repairs and Maintenance	Oct 2020 Dec 2020

relevant members of staff as to procedure.		and any necessary training required should be undertaken where appropriate.				
2. Testing identified data quality issues concerning data held within Cloud Dialogs Service Connect Platform which does not reflect the current basket prices from the supplier.	There is a risk that the master data across repairs is inconsistent or incorrectly actioned resulting in management decisions being based on incomplete or inaccurate information.	2. The Repairs and Maintenance department should document and implement data quality guidelines which lay out the approach to ensuring data across systems is based on accuracy, completeness, consistency, uniqueness, and timeliness within which data quality is managed. This would ensure clarity around the process to be followed and prevent inconsistencies to ensure that a standardised approach has been adopted for Repairs Master Data.	Medium	Arrange basket rate to be uploaded to QL. A short procedure guide (incorporated into that detailed procedures above for materials) will be written for updating systems (i.e. an annual pricing check / or when there is a change in contract).	Principle Officer – Repairs and Maintenance	August 2020
3. Van stocks process needs to be updated to verify the stock levels held in vans by the operatives.	There is a risk that if parts and materials that may become obsolete or are misappropriated, would not be identified, leading to financial loss. Without regular van stock checks in place there no deterrent for	3. Management should update the van stock process and communicate it to all operatives. In addition, the stock spreadsheet should be updated and reviewed on a regular basis.	Medium	A review will be undertaken to establish when van stock checks are should be conducted. Van stock by trade will be established.	Repairs and Investment Manager	Oct 2020

	individuals misappropriating stock.			Establish whether Service Connect to do this automatically. Operatives should be made aware of new procedure.		
4. There is no clearly documented process in place for returned items; we were informed it is up to the operatives to swap faulty items. Further, there is no procedure in place over monitoring of stock usage by operative.	There are control gaps in the returns process which means that the traceability of stock is not present in some instances which could result in financial losses.	4.1 The returns procedure should be documented and distributed to operatives. 4.2 Management should put procedures in place to monitor stock usage levels (e.g. highlighting unusual items being procured and excessive amounts of spending by a particular operative).	Medium Medium	4.1 A written procedure will be produced for the returned material items. 4.2 Management will look into the production of a report (possibly through Service Connect) which shows what materials have been used by operative and if this is possible put in place monitoring procedures.	Principle Officer – Repairs and Maintenance Principle Officer – Repairs and Maintenance	Oct 2020 Oct 2020

VOIDS MANAGEMENT 2019/20

Overview

ASSURANCE RATING – MODERATE ASSURANCE	CORPORATE SIGNIFICANCE – HIGH

Overall, we conclude that there are adequate arrangements in place to manage the turnaround of void properties in a timely manner. However, we have raised two medium level and three low level recommendations for the Council to address. The medium recommendations are in relation to data inaccuracies within the housing management system, and inefficiencies in the process to advertise properties.

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. QL data issues 1.1. Information recorded on the QL housing management system differed from that held on manual records due to default dates that cannot be changed on the system. These included the dates of key return to Housing Needs, post inspection and completion of repairs.	Inaccurate and incomplete data does not allow for a sufficient audit trail and reduces the ability to perform meaningful analysis of potential inefficiencies.	1.1. QL system issues should be investigated and resolved to ensure that the system matches manual records held by the Voids Team Leader. N.B The differences are typically only 1-day difference hence this is Low, but difference should still be investigated to confirm what sits behind this.	Low	1.1 We will look into this point. The net effect appears to be 0.1 days difference.	Principal Officer – Repairs and Maintenance	June 2020
1.2. Testing also identified instances of incomplete data recorded on QL for the timeline of advertising to offer acceptance.		1.2**.** Monitoring of compliance levels of staff should be increased to help mitigate instances of incomplete data via senior office spot checks. N.B Written guidance on key register codes and process for recording keys register dates already in place (last revised October 2019).	Medium	1.2 Written guidance on key register codes and process for recording keys register dates already in place (last revised October 2019). staff compliance will be more closely monitored	Housing Needs Manager	June 2020

2. Advertising and Offers 2.1 The timeliness of advertising was found to be inadequate. Of the sample of 20 voids tested, advertising for eight properties started after repairs had been completed, with the delay ranging from 3 to 101 days. 2.2. The prescribed guideline in the Housing Allocations Policy for offers to be accepted within three working days is not documented properly where discretion is applied to extend this. There were 2 out of 10 instances where an additional 4 and 17 days were given to the applicants.	An inefficient advertising and offer process will have adverse effects on the turnover of void properties, resulting in greater rent losses.	2.1 The procedures for recording voids advertising data on the housing management system should be reviewed and officers reminded of this to ensure consistency in the recording of data. N.B our sample was for the period April to September 2019. We were on-site in November 2019 so reviewed completed cases up to the end of September 2019. 2.2**.** Unless there are valid exceptional circumstances documented, there should be consistent compliance with the 3 working day offer deadline. Any non-responses should be appropriately treated as one of the applicant's three allowed refusals.	Low Low	2.1 Process for advertising properties changed in October 2019, properties are now advertised in first cycle after void date (regardless of anticipated repairs timeframes). 2.2 The Housing Allocations Policy states that applicants may be given longer to consider an offer e.g. if applicant is vulnerable and needs more time to respond. This need may be identified after the offer is made. Acknowledge that reasons for extension need to be recorded.	Housing Needs Manager Housing Needs Manager	June 2020 June 2020
3. Raising QL orders. Within the sample of 20 properties tested, there was a small number instance of inefficiencies identified at the start of the void process. These include pre-inspections conducted after the tenancy end date; QL orders raised after the end	The build-up of such delays at the start of the void process can contribute to the 27-day turnaround target being missed more frequently.	3. Further consideration should be given to the minor delays identified and appropriate action taken at the Operational Group's Workshop N.B Management have considered steps to support access including an article earlier this year to	Low	Tenancies have to be terminated on a Sunday. Where an applicant returns the keys before 12pm on the Monday after the notice expiry, the tenancy is terminated as from the Sunday (the day before). There are therefore likely to be a high proportion of cases	Principal Officer – Repairs and Maintenance	June 2020

of tenancy; and QL showed that keys were returned after the end of tenancy. N.B we specifically looked at Sunday to Monday termination to key return and found after accounting for this there was one case longer than expected timeframes hence this has been raised but also hence this is Low.		encourage tenants to provide access for the pre-inspection. In light of the current audit we have raised a Low to suggest the Council re-assess the differences and assess if a key performance indicator is needed to monitor progress of the actions taken.		where the keys are received and the orders are raised the day after the tenancy termination date. We remind tenants to return the keys, however in some instances they do not. There is little that the Council can do to force a return of keys. Locks can be changed if necessary.		
4. Action plans Action plans do not show the significance of each action and are not subject to a rating system.	If actions are not appropriately signified with a RAG rating, it may make prioritisation more difficult especially if there are unforeseen staff changes.	4. Management should consider a RAG rating system should be applied so that there is a clear order of priority for the actions.	Low	Current action status' and target dates are specified in the comments section.	Head of Strategic and Private Sector Housing	June 2020

ABSENCE MANAGEMENT 2019/20

Overview

ASSURANCE RATING – MODERATE ASSURANCE	CORPORATE SIGNIFICANCE - MEDIUM

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no serious weaknesses in the internal control environment within the areas reviewed, there is a need to further enhance controls and to improve the arrangements for managing risks.

The administration of HR services is outsourced to Leicestershire County Council who have four HR Advisers permanently based at the Council. The HR team is overseen by the Charnwood Borough Council Improvement and Organisational Development Manager who retains responsibility for setting the Council's HR policies. Departmental Line Managers are responsible for ensuring that employees are aware of and comply with the procedures, for recording and monitoring absence, for conducting return-to-work interviews and agreeing support plans.

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. Policies and procedures do not provide guidance relating to the treatment of short returns to work between absences and do define what are considered "acceptable level of attendance" in the attendance management process.	There is a risk that different Managers apply discretion differently. This could result in inconsistencies in the way staff are treated between departments and lead to grievances being raised by employees who have not been treated equally.	1.1 The Attendance Management Policy and Manager's Guide should be updated to include guidance on how to define whether separate incidents should be classed as one absence or two and should define 'acceptable levels of attendance'.	Medium	1.1 Update the Managers Guide to include guidance on whether separate incidents should be classed as one absence or two. SLT 26 August 2020. JMTUM and Personnel Committee dates to be confirmed.	LCC Human Resources	Dec 2020
		1.2 The changes to the policy should be communicated to Managers so that they are aware of the new requirements.	Medium	1.2 Communicate the changes to managers	Improvement and Organisational Development Manager	Dec 2020

2. Detailed trend analysis is not formally conducted to identify patterns in absences, such as absences next to periods of annual leave and the HR Management System (iTrent) is not being used to its full capacity.	Patterns of absence are not identified e.g. always on a Friday, meaning that the true root cause of the absence is not identified and addressed.	2.1 The iTrent system should be utilised more, to draw management's attention to any underlying causes which might exist, by providing monthly reports to Managers and HR. Reports such as: • Absence stage status • Absences on specific days of the week • Absences next to periods of annual leave	Medium	2.1 Utilise the iTrent system to determine trends in absence	Systems Analyst	Dec 2020.
3. Testing found that there is a risk that appropriate triggers within the policy may not be enforced as it is the Manager's responsibility to be checking the employee's absence history during the period of absence to identify any trigger points and that this is not independently reviewed by HR until the following monthly.	If a Manager has not taken action on an absence which reached a trigger point in the policy it might not be identified and challenged for up to six weeks.	3.1 The HR Management System (iTrent) has a workflow facility which automatically sends an email to HR and to the relevant Manager once an employee reaches a trigger point in the absence management policy. e.g. has a third absence in six months. It is recommended that this facility is utilised so that HR and Managers receive real-time notifications of triggered absences. The workflow should be set up by the Systems Administrator based	Medium	3.1 Consider utilising the iTrent system to identify and manage triggers.	Systems Analyst	Dec 2020

		on a staffing establishment / organisational structure to ensure that notifications are sent to the right people.				
4. Testing found that in 3 out of 15 absence cases reviewed managers had applied discretion. However, in the policy it is not clear when discretion can be applied and although it is advised that the HR team are consulted on all occasions where a Manager wishes to apply discretion, if this does not happen this may result in the policy being applied inconsistently and unfairly between departments. The HR team review absence trigger reports and challenge the Manager as to the action taken. However, this is after the event and discretion might already have been applied.	There is a risk that different Managers apply discretion differently. This could result in inconsistencies in the way staff are treated between departments and lead to grievances being raised by employees who have not been treated equally.	4.1 All staff with absence management responsibilities (e.g. line managers and Heads of Service) should attend a training session delivered by the HR team to discuss discretion and how and when it can be applied. The session should address the application of manager discretion to the absence management policy and aim to clarify when it is and is not appropriate to apply discretion. 4.2 Procedures are put in place to ensure discretionary decisions are not reviewed or challenged after the discretion has already been applied.	Medium Medium	4.1 HR to include absence management in their next briefing sessions As per recommendation if i-Trent can provide live prompts to LCC Humans Resources.	LCC Human Resources LCC Human Resources and Improvement, Systems Analyst and Organisational Development Manager	April 2021 (dependent upon Covid 19 restrictions) Dec 2020

Follow Ups: Recommendations Not Implemented by the Agreed Date as at 30th June 2020 APPENDIX D

Observation	Recommendation	Priority	Agreed Action	Agreed Date	Responsible Officer	Comments
General Data Protection Regulations 2019/20						
1. There is no Information Governance committee or working group to provide oversight and accountability by the Council.	Senior management should develop a Terms of Reference for an Information Governance (IG) Board with members identified and a chair appointed. The IG Committee Board should meet on a routine basis to monitor compliance against GDPR compliance and information governance at a strategic level. All relevant stakeholders should be identified and the IG Roles and Responsibilities should be defined and communicated.	High	A proposal will be taken to CLT to agree and establish an Information Governance Working Group (IGWG)	March 2020	Strategic Director of Corporate Services	The proposal was discussed at CLT and it was decided not to create a working group and a report will continue to go to CLT on a quarterly basis. It has not been communicated how CLT will be provide oversight and accountability to fulfil this recommendation.
2. Data Protection Impact Assessments have not been completed for all new project and systems by service areas	The IG Board should ensure that a privacy impact assessment is performed when: • A new project involving personal identifiable information is introduced• • An existing project that involves personal identifiable information is changed. • The IG Board should also assess its existing ways of working and, where necessary, makes changes so that they comply with the principle of Privacy by Design.	Medium	This will become a standing agenda item for the IGWG. The Data Protection and Information Security Officer will continue to raise awareness of DPIA directly with teams to ensure they are completed appropriately. In addition, the DP Policy informs managers regarding when to complete / consider a DPIA.	April 2020	Strategic Director of Corporate Services & Data Protection and Information Security Officer	As no working group is being established the agreed action needs to be revised to ensure the recommendation is fulfilled.

5. We concluded that there are inadequate methods in place to monitor or check compliance against RoPA retention periods.	The Council should make adjustments to document and ensure they are adhering to the Local Government Association (LGA) retention schedule timeframes when managing data obtained and ensure compliance to the schedule.	Medium	Following the establishment of the IGWG this will go on the agenda for this group to monitor this in conjunction with CLT & Service Managers as an ongoing issue.	June 2020	Data Protection and Information Security Officer	As no working group is being established the agreed action needs to be revised to ensure the recommendation is fulfilled.
6. 6. Existing contracts have not been updated by the Legal team with GDPR contractual addendums.	With an oversight of the IG Board, the Legal Services should ensure all existing contracts are updated and agreed with the necessary GDPR addendums.	Medium	Legal Services to finalise contract changes.	June 2020 IA to follow up again in October 2020	Head of Strategic Support	There have been several contributing factors with regard to the delays in achieving this implementation date. There was some confusion over who was responsible for fulfilling this task. The equality policy and data protection policies needed approving - now completed. The list of contracts was distributed to head of services for review and no responses have been received. An email is being distributed again with a deadline of end of July. There have also been changes in modern slavery legislation so it was thought appropriate that this should be done at the same time, to bring contracts in line. The letters have been drafted and once contract lists have been

						confirmed, letters can be distributed.
Voids Management 2019/20						
1.2. Testing also identified instances of incomplete data recorded on QL for the timeline of advertising to offer acceptance.	1.2**.** Monitoring of compliance levels of staff should be increased to help mitigate instances of incomplete data via senior office spot checks. N.B Written guidance on key register codes and process for recording keys register dates already in place (last revised October 2019).	Medium	1.2 Written guidance on key register codes and process for recording keys register dates already in place (last revised October 2019). staff compliance will be more closely monitored	June 2020	Housing Needs Manager	Head of Service advised that due to more urgent pressures relating to COVID-19 and the changes in our practices, work to implement the recommendations has been delayed.
2.2. The prescribed guideline in the Housing Allocations Policy for offers to be accepted within three working days is not documented properly where discretion is applied to extend this. There were 2 out of 10 instances where an additional 4 and 17 days were given to the applicants	2.2**.** Unless there are valid exceptional circumstances documented, there should be consistent compliance with the 3 working day offer deadline. Any non-responses should be appropriately treated as one of the applicant's three allowed refusals.	Low	2.2 The Housing Allocations Policy states that applicants may be given longer to consider an offer e.g. if applicant is vulnerable and needs more time to respond. This need may be identified after the offer is made. Acknowledge that reasons for extension need to be recorded.	June 2020	Housing Needs Manager	Head of Service advised that due to more urgent pressures relating to COVID-19 and the changes in our practices, work to implement the recommendations has been delayed.
4. Action plans Action plans do not show the significance of each action and are not subject to a rating system.	4. Management should consider a RAG rating system should be applied so that there is a clear order of priority for the actions.	Low	Current action status' and target dates are specified in the comments section.	June 2020	Head of Strategic and Private Sector Housing	Head of Service advised that due to more urgent pressures relating to COVID-19 and the changes in our practices, work to implement the recommendations has been delayed.
IT Cyber Security 2019/20						

5. Penetration tests to date have not included simulated email phishing exercises	5. Management should reconsider on a cost/benefit basis the need for including phishing emails into the next annual external penetration test	Low	Phishing exercise to be organised with a third- party supplier. This may be undertaken either as a separate exercise (with LGA funding) or as part of the next IT Health check	April 2020	IT Service Delivery Manager	11.05.20 Advised that PEN Test is scheduled for August/September and will include Phishing exercise.
IT Disaster Recovery 2019/20						
1. No regular testing for the Disaster Recovery Plan in line with the Business Continuity plans	1. Develop a schedule for routine testing of the business continuity and disaster recovery plan and ensuring any potential resource constraints or deficiencies of the plans are identified and accommodated for.	Medium	Options are currently being investigated for future business continuity support, including updating, testing and training processes.	May 2020	Head of Strategic Support	Followed up June and July 2020. Head of Service advised that no further work is being carried out on Business Continuity.
2. No references made in the Disaster Recovery Plan to specific roles for key officers.	2. IT Disaster recovery plans should be updated alongside the business continuity plans to highlight areas of responsibilities and provide a reference point to key officers.	Medium	As recommendation one.	May 2020	Head of Strategic Support	Followed up June and July 2020. Head of Service advised that no further work is being carried out on Business Continuity.
3. No training in place to key officers for disaster recovery and business continuity arrangements.	3. Introduce an annual training program ensuring key officers are prepared for any potential threat the Council could face to critical systems and servers. By ensuring annual completion new potential threats can be highlighted beforehand.	Medium	As recommendation one.	May 2020	Head of Strategic Support	Followed up June and July 2020. Head of Service advised that no further work is being carried out on Business Continuity.
Performance Management 2018/19						
3. The Corporate Performance Management guide for Officers have not been reviewed since September 2015.	3. The Corporate Performance Management guide is reviewed to ensure it represents current practice.	Low	Corporate Performance Management Guide will be reviewed in line with the development of the new Corporate Plan and Business Plan.	April 2020	Corporate Improvement and Policy Officer	02.06.20 - A draft of the revised guidance has been completed. The intention was to complete this piece of work and launch in line with the new Corporate Plan and Corporate

						Delivery Plan after 01/04/20. Unfortunately, due to the pandemic this a) did not take place; b) means the Corporate Delivery Plan needs to be re-developed and re-issued to Cabinet. This Guidance is not a high priority right now but remains on the to do list. There is currently no timescale for redeveloping the Delivery Plan or an estimated Cabinet date for sign off.
Licensing 2018/19						
7. The process of determining the number of Temporary Event Licences an applicant has had is open to error as Licensing Officers have to complete various system searches by name and location to determine quotas.	7. Management consider how quotas in respect of Temporary Event Licences could be tracked more efficiently.	Low	Investigate with Swift back office system as to how to extract duplicate addresses and once list obtained carry out Cleansing exercise. Identify with Swift potential for reports on Number of TENs received and dates. Planned replacement of back office system in 2020-21.	June 2020	Licensing Manager	28.04.20 - This was logged with software provider with on 11th February 2020. 26.03.20 - Software provider put request on hold. Reviewed 04.08.20 with no change.

APPENDIX E

INTERNAL AUDIT PERFORMANCE INDICATORS

PERFORMANCE MEASURE	POSITION AS AT 30TH JUNE 2020	COMMENTS
Delivery of 2020/21 Audit Plan	0%	For future progress reports this will reflect progress against the 'revised' audit plan.
Percentage of Client Satisfaction with the Internal Audit Service	75%	Based on four returns for 19/20.
Compliance with the Internal Audit Standards	No significant gaps	
Compliance testing of completed recommendations	100%	Follow up testing is up to date however some delays in implementation of recommendations due to Covid-19.

AUDIT COMMITTEE – 22nd SEPTEMBER 2020

Report of the Head of Strategic Support

Part A

ITEM 8 ALLOWANCES AND EXPENSES CLAIMED BY COUNCILLORS AND CO-OPTED MEMBERS 2019/209

Purpose of Report

To consider the amounts claimed by members of the Borough Council and co-opted members under the Council's Members' Allowances Scheme for 2019/2020.

Recommendations

1. That the amounts claimed in allowances and expenses by Councillors and co-opted members be noted; and

2. that any issues arising from the report be referred to the Head of Strategic Support for further investigation.

Reasons

1. To enable the Committee to ensure that the operation of the Members' Allowances Scheme complied with the published standards and controls.

2. To ensure that the issues could be investigated and a response given, and if necessary recommendations made for addressing any unresolved issues.

Policy Justification and Previous Decisions

The role of the Audit Committee is to provide part of the Council's assurance/compliance framework, including considering the Council's compliance with its own and other published standards and controls.

Implementation Timetable including Future Decisions

Any issues that the Committee identify should be referred to the Head of Strategic Support for further investigation and a further report if necessary.

Report Implications

The following implications have been identified for this report.

Financial Implications

None.

Risk Management

There are no specific risks associated with this decision.

Background Papers:	The Local Authorities (Members' Allowances) (England) Regulations 2003.
Officer to Contact:	Adrian Ward Head of Strategic Support (01509) 634573 adrian.ward@charnwood.gov.uk

Part B

Background

1. The Council's Members' Allowances Scheme is reviewed by an Independent Remuneration Panel which makes recommendations to Council on the Allowances to be paid to Councillors and co-opted members and what expenses can be claimed and the criteria under which a claim can be made.

2. The Local Authorities (Members' Allowances) (England) Regulations 2003 require each local authority to publish details of allowances paid to each Councillor for the previous year. The information for the financial year 2018/2020 is attached as an Appendix to this report.

Appendices

Appendix – Allowances and Expenses paid to Councillors and Co-opted Members (April 2019 to March 2020).

CHARNWOOD BOROUGH COUNCIL - ALLOWANCES AND EXPENSES PAID TO COUNCILLORS AND CO-OPTED MEMBERS (April 2019 to March 2020)

		Basic Allowance	Mayor Allowance	Leader Allowance	Deputy Leader Allowance	Cabinet	Opp Leader Allowance	Special Resp Allowance	Co-opt Chair	Co-opt Member	Expenses and Subsistence	Fares	Mileage	Total
Councillors														
*** Bailey**	**Richard**	4,661.15												4,661.15
Baines	**Paul**	5,175.96						1211.52					400.95	6,788.43
Barkley	**Tom**	5,175.96			8,775.96	-3,497.77						56.10		10,510.25
*** Bebbington**	**William**	514.81						150.44						665.25
Bentley	**Iain**	5,175.96						1,299.53						6,475.49
Bokor	**Jenny**	5,175.96				5,015.04							571.95	10,762.95
*** Boldrin**	**Paul**	4,661.15												4,661.15
*** Bolton**	**Gillian**	4,661.15										195.90		4,857.05
Bradshaw	**Julie**	5,175.96												5,175.96
*** Bradshaw**	**Simon**	4,661.15										40.10	28.35	4,729.60
*** Brennan**	**Alice**	4,661.15												4,661.15
Brookes	**Matthew**	5,175.96						1,211.52						6,387.48
Campsall	**Roy**	5,175.96												5,175.96
Capleton	**John**	5,175.96						481.34					351.45	6,008.75
*** Charles**	**Mark**	4,661.15												4,661.15
*** Cooper**	**Beatrice**	514.81												514.81
Draycott	**Mary**	5,175.96						1,299.53						6,475.49
Forrest	**Sandie**	5,175.96						855.41						6,031.37
Fryer	**Hillary**	5,175.96						3,726.75						8,902.71
*** Gaskell**	**David**	514.81												514.81
*** Gerrard**	**Sue**	3,061.05											288.00	3,349.05
*** Goddard**	**Katrina**	4,661.15												4,661.15
Grimley	**Daniel**	5,175.96						3,029.62			2.20	2.10	398.70	8,608.58
*** Hachem**	**Harley**	514.81												514.81
Hadji-Nikolaou	**Leon**	5,175.96												5,175.96
Hamilton	**Colin**	5,175.96												5,175.96
*** Hampson**	**Stephen**	514.81												514.81
Harper-Davies	**Leigh**	5,175.96				5,015.04							202.50	10,393.50
Harris	**Christine**	5,175.96	962.55									7.00	31.50	6,177.01
Harris	**Keith**	5,175.96						206.47						5,382.43
*** Hayes**	**David**	514.81												514.81
*** Howe**	**Julian**	4,661.15											267.30	4,928.45
*** Huddlestone**	**Richard**	514.81												514.81
Hunt	**Jane**	5,175.96				973.79		1,021.14						7,170.89
*** Jukes**	**Ron**	514.81												514.81
Lowe	**Mark**	5,175.96						752.17						5,928.13
Mercer	**Paul**	5,175.96				5,015.04								10,191.00
Miah	**Jewel**	5,175.96					4,203.00	1,755.48						11,134.44
Morgan	**Jonathan**	5,175.96		12,537.96							302.00	406.90	104.40	18,527.22
Murphy	**Paul**	5,175.96												5,175.96
*** Needham**	**Laurie**	4,661.15												4,661.15
Pacey	**Ken**	5,175.96						2,507.04					359.10	8,042.10
*** Page**	**Brian**	514.81						375.71						890.52
Paling	**Andy**	5,175.96												5,175.96
Parsons	**Geoff**	5,175.96						3,510.96						8,686.92
Parton	**Ted**	5,175.96										60.20		5,236.16
Poland	**James**	5,175.96				5,015.04								10,191.00
*** Popley**	**Robin**	4,661.15											101.25	4,762.40

		Basic Allowance	Mayor Allowance	Leader Allowance	Deputy Leader Allowance	Cabinet	Opp Leader Allowance	Special Resp Allowance	Co-opt Chair	Co-opt Member	Expenses and Subsistence	Fares	Mileage	Total
Radford	**Christine**	5,175.96											32.40	5,208.36
Ranson	**Pauline**	5,175.96						1,417.99					172.80	6,766.75
Rattray	**Shona**	5,175.96						2,173.05						7,349.01
Rollings	**Roy**	5,175.96				4,568.35								9,744.31
Savage	**John**	5,175.96												5,175.96
Seaton	**Brenda**	5,175.96	6,298.91					481.34					81.00	12,037.21
Shepherd	**Richard**	5,175.96												5,175.96
Smidowicz	**Margaret**	5,175.96				5,015.04						328.00	98.55	10,617.55
*** Smith**	**Luke**	514.81												514.81
Snartt	**David**	5,175.96	1,514.60								9.20	5.00	433.35	7,138.11
Tassell	**Joan**	5,175.96							1,506.00					6,681.96
Taylor	**Deborah**	5,175.96				5,015.04						7.20	907.65	11,105.85
Tillotson	**Jenni**	5,175.96						103.23						5,279.19
*** Vardy**	**Eric**	2,156.65				2,089.60					41.30		579.15	4,866.70
*** Ward**	**Emma**	4,661.15												4,661.15
Co-opted Members														
Angell	**Bev**								3,510.96			37.20		3,548.16
Ball	**Victoria**									258.00				258.00
Cleere	**Patrick**									199.92				199.92
*** Crick**	**Betty**									43.00				43.00
Dhul	**Sumeet**									115.58				115.58
*** Jones**	**Julie**									197.80				197.80
Marchant	**Dennis**									201.82				201.82
Moss Waghorn	**Gill**									19.88				19.88
Smith	**Paul**									200.04				200.04
		268,676.85	**8,776.06**	**12,537.96**	**8,775.96**	**34,224.21**	**4,203.00**	**27,570.24**	**5,016.96**	**1,236.04**	**354.70**	**1,145.70**	**5,410.35**	**377,928.03**

* Councillors who only served for part of the year, those who were not re-elected or those elected for the first time in 2019.

AUDIT COMMITTEE – 22nd SEPTEMBER 2020

Report of the Head of Strategic Support

Part A

ITEM 9 ANNUAL UPDATE RE THE ANTI- FRAUD & CORRUPTION STRATEGY AND WHISTLE - BLOWING POLICY

Purpose of Report

To provide information on the operation of the Anti-Fraud & Corruption Strategy and Whistle-blowing Policy during 2019/20.

Recommendations

The Committee is requested to note the information on the operation of the Anti-Fraud & Corruption Strategy and the Whistle-blowing Policy.

Reason

To ensure the Committee is kept up to date on the operation of the policies, and instances where they have been applied.

Policy Justification and Previous Decisions

The Council is obliged under the Public Interest Disclosure Act to maintain a Whistle-blowing Policy, designed to encourage staff, elected Members, contractors and the public to raise legitimate concerns about wrong-doing within the Council without fear of reprisal. In line with its role of community leadership, and its responsibilities for the stewardship of public funds, the Council also has an Anti-fraud & Corruption Strategy setting out how cases of fraud and corruption will be prevented, and how suspicions will be dealt with.

Implementation Timetable including Future Decisions

Updates will continue to be provided to the Committee on an annual basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no financial implications relating to this report

Risk Management

There are no risks arising from this report.

Background Papers:	None
Officer to contact:	Adrian Ward (01509 634573) adrian.ward@charnwood.gov.uk

Part B

1. Background

All new members of staff receive awareness training re the documents as part of their Induction process. The Whistle-blowing Policy is also provided to potential suppliers as part of the procurement process.

2. Policy Documents

The documents have been reviewed and no amendments have been identified.

3. Whistleblowing Notifications

One whistleblowing notification was received during the year. This related to a confidential employment related matter, and was investigated by the relevant Strategic Director.

4. Fraud

Investigation of housing benefit fraud is now undertaken by the DWP Single Fraud Investigation Service and the DWP Fraud and Error Service.

No other instances of fraud or corruption were identified during the year.

AUDIT COMMITTEE – 22nd SEPTEMBER 2020

Report of the Head of Strategic Support

Part A

ITEM 10 RISK MANAGEMENT (RISK REGISTER) UPDATE

Purpose of Report

The purpose of this report is to provide the Committee with details of the Strategic Risk Register produced for the period to 2020/21, and also to provide information on the risk register that has been compiled to reflect the ongoing COVID-19 situation.

Recommendation

The Committee notes the report.

Reason

To ensure the Committee is kept informed of progress against the strategic risks that should they crystallise would cause the Council to be unable to operate and/or provide key services leading to a significant adverse effect on public wellbeing, and also about the COVID-19 risk register.

Policy Justification and Previous Decisions

The Strategic Risk Register was approved by Cabinet on the 13th February 2020. Cabinet resolved that the Audit Committee monitor progress against those risks on the register by receiving and considering monitoring reports on a quarterly basis.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None

Risk Management

There are no specific risks associated with this decision.

Background Papers:	None
Officers to contact:	Adrian Ward Head of Strategic Support (01509) 634573 adrian.ward@charnwood.gov.uk Helen Gretton Improvement and Organisational Development Manager (01509) 634556 helen.gretton@charnwood.gov.uk

Part B

Background

1. In accordance with the Committee's work programme the Committee receives monitoring reports in respect of the Council's risk management arrangements. The reports provide a detailed commentary against the risks included in the strategic risk register and the COVID19 risk register.

Development of the Strategic Risk Register

2. In reading the risk registers attached in the appendices, it is important to understand that the 'Overall Score' shown in the first risk matrix is the risk that the Council would bear if ***no*** actions were taken to mitigate the risk. In the vast majority of cases the Council is able to operate risk mitigation processes which result in the lower 'Net Risk Score' shown in the second risk matrix it is this latter score which represents the current assessment of strategic risks faced by the Council.

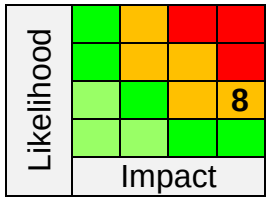
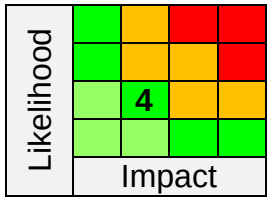
3. The registers will continue to be monitored and reviewed by the Senior and Corporate Leadership Teams at the quarterly Risk Management Group meetings, and will be updated as required.

5. An additional risk has been added to the COVID-19 risk register since the Committee's last review (CVD-8), which relates to the inceased length of time that many staff are spending home-working and the potential consequences arising from that.

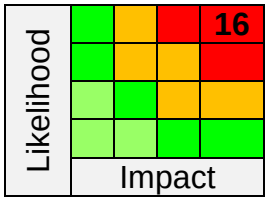
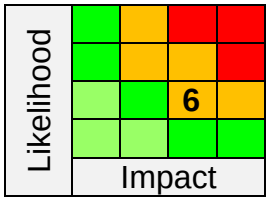
Appendices

Appendix 1 - Strategic Risk Register
Appendix 2 – COVID-19 Risk Register

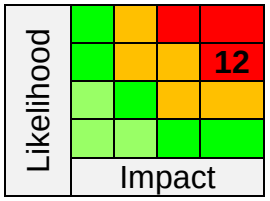
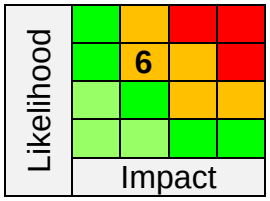
Appendix 1 - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR1 Inadequate business continuity and recovery arrangements, resulting in major internal and/or external disruption to services in the event of an incident.	Strategic	• Inability to deliver key/critical services e.g. benefits, refuse collection, homelessness applications, emergency repairs. • Reduction in access channels available to residents / customers i.e. contact centre, customer services, telephony			MAINTAIN AS CURRENT
Current Treatments and Controls	• Business Continuity Planning • IT Disaster Recovery Plan • Website hosted externally • Off-site data back-up arrangements • Stand-by generator for ICS building • Cloud based telephony infrastructure • Contingency planning for failure of major contractor				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not applicable		Responsible Officer: N/A	Target Date: N/A	

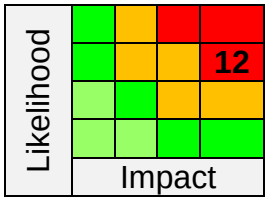
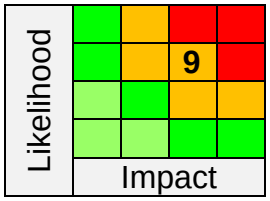
Appendix 1 - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR2 Inadequate data sharing and data security arrangements.	Strategic	• Ineffective processes for sharing data with other agencies / authorities leading to data breaches • Major reputational damage and loss of public confidence • Potentially significant fines			MAINTAIN AS CURRENT
Current Treatments and Controls	• Information sharing agreements in place with key agencies and authorities • Annual IT health checks including penetration testing • Data Protection Officer in post • Data protection training and awareness for staff and councillors • IT security policies in place • Protective marking of emails • Policies are reviewed on a regular basis				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A		Target Date: N/A	

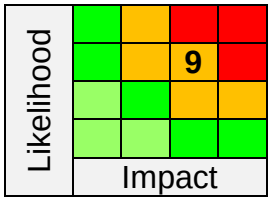
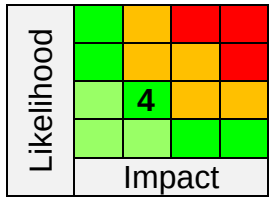
Appendix 1 - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR3 Inadequate civil contingency arrangements resulting in failure to respond appropriately to a major incident (eg. flooding, terrorism etc).	Strategic	• Inability to respond to affected peoples' basic needs (food, shelter etc) • Adverse effect on the local economy • Major reputational damage and loss of public confidence • Extending the recovery phase longer than necessary			MAINTAIN AS CURRENT
Current Treatments and Controls	• Participation in the Local Resilience Partnership and Forum (LRP and LRF) • Appropriate emergency and incident planning in place • Regular Testing and exercising of emergency plans • Training and awareness for relevant staff • 24/7 call-out arrangements for senior managers (SMT / CMT) • Participation in county-wide Events Safety Group (SAG) • Reviews periodically undertaken within current Treatments and Controls				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Participation in LRF's 'no-deal' Brexit planning processes, including appointment of a 'Brexit Lead Officer'	Responsible Officer: Head of Strategic Support	Target Date: Ongoing		

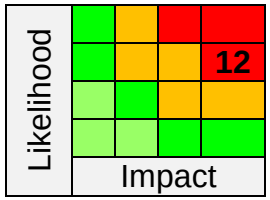
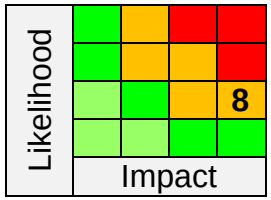
Appendix 1 - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR4 Significant reduction in external funding and/or income generated leading to a reduction in the financial resources available for service provision and/or to fund corporate objectives.	Strategic	• Inability to meet demand for services • Inability to meet statutory duties • Ceasing or reducing some services			MAINTAIN AS CURRENT
Current Treatments and Controls	• Annual production and monitoring of Medium-Term Financial Strategy (MTFS) • Treasury Management Strategy • Budget and revenue monitoring processes • Business continuity planning • Production and monitoring of efficiency plan • Maintenance of reserves at specified required levels • Monitor, consider and respond to government proposals affecting budgets and/or income • Consider commercialisation opportunities				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable		Responsible Officer: N/A	Target Date: N/A	

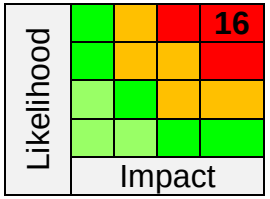
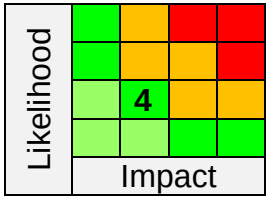
Appendix 1 - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR5 Ineffective strategic communication arrangements	Strategic	• Reputational damage • Adverse media coverage • Damage to relationships with partners • Damage to staff morale			MAINTAIN AS CURRENT
Current Treatments and Controls	• Adequately staffed and experienced corporate communications team • Corporate Communications Plan in place • Regular monitoring of all media sources • Continue to expand on social media use and reach • 'Horizon scanning' for potential communication issues at each Corporate Management Team meeting				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A	Target Date: N/A		

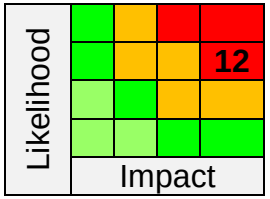
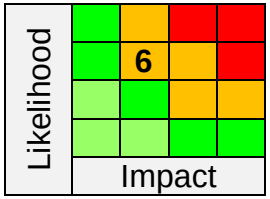
Appendix 2: COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD-1 Inadequate health and safety arrangements for staff, Members and volunteers, resulting in infection by the virus.	Strategic	• Sickness absence • Loss of confidence • Reputational damage • Legal action and claims for damages			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Health & Safety Group established and meeting regularly • Appropriate use and monitoring of stock levels of PPE (personal protective equipment) • Monitoring and applying relavant national guidance • Introduction of extensive home working to comply with social distancing requirements • Use of remote meeting powers for council and committee meetings • Home visit protocol developed and updated. • Generic Risk Assessments in place and communicated to HoS • Updates to CLT/SLT through BCG.				
Risk Owner	Head of Regulatory Services				
Planned Future Actions and Responsible Officer(s).	• Description: • Generic Staff Homeworking VDU Assessments to be updated • PPE equipment requirements on-going reviewed and inform SLT		Responsible Officer: Head of Regulatory Services (Chair of Health & Safety Group)	Target Date: Ongoing	

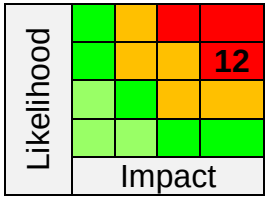
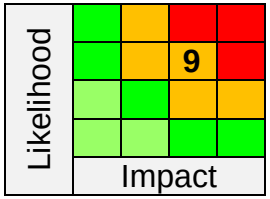
Appendix 2: COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD-2 (linked to SR5) Inadequate communications arrangements (internal and external)	Strategic	• Major reputational damage and loss of public confidence • Members, residents and staff unaware of latest guidance and developments • Vulnerable groups unaware of potential support options • Businesses unaware of potential grant funding arrangeents			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Communications team in place using various suitable channels (website, press releases, social media) • Participation in the LRF communications cell				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A		Target Date: N/A	

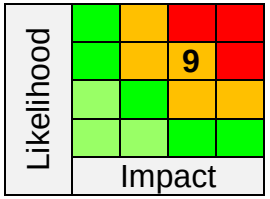
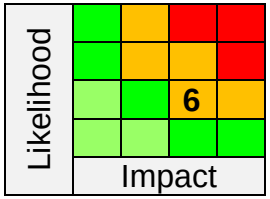
Appendix 2: COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD-3 (linked to SR3) Inadequate civil contingency arrangements resulting in failure to respond appropriately to the COVID-19 major incident	Strategic	• Inability to respond to affected peoples' basic needs (food, shelter etc) • Adverse effect on the local economy • Major reputational damage and loss of public confidence • Extending the recovery phase longer than necessary • Consideration of concurrent events such as flooding, Brexit			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Participation in the Local Resilience Partnership and Forum (LRP and LRF) • Implementation of relevant business grants schemes • Implementation of a 'Community Hub' at John Storer House • Moved on to Recovery • Major incident plan has been updatedby LRF				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Continued participation in LRF's SCG and TCG, and recovery cells		Responsible Officer: Chief Executive and Head of Strategic Support	Target Date: Ongoing	

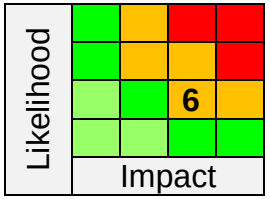
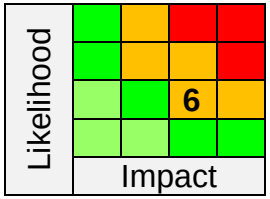
Appendix 2: COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD- 4 (linked to SR4) Significant reduction in income generated leading to a decrease in the financial resources available for service provision and/or to fund corporate objectives.	Strategic	• Inability to meet demand for services • Inability to meet statutory duties • Ceasing or reducing some services			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Budget and revenue monitoring processes • Business continuity planning • Development of a revised budget during the 2020/21 financial year - Cabinet 15th October • Ongoing review of the funding available from Central Government (i.e 71% of income)				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Review of budget and related strategies by autumn 2020.		Responsible Officer: Strategic Director of Corporate Services	Target Date: Autumn 2020	

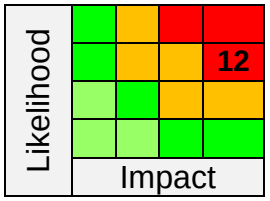
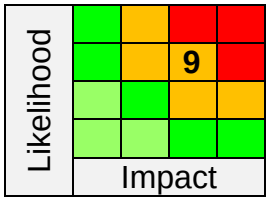
Appendix 2: COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD- 5 Breakdown in IT service caused by equipment, failure of internet connections, or staff shortages.	Strategic	• Inability of significant numbers of staff to continue with effective home working leading to service disruptions			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Secure and resilient IT infrastructure at Network and Server levels • Performance and security monitoring in place by key staff and (where appropriate) by suppliers • Automated backup schedule, in line with agreed rentention policies • Alternative contacts and secondary responsibilities in place for key functions and tasks • Introduction of extensive home working to comply with social distancing requirements • Consideration of IT supporting agile working in the recovery phase • Consideration of supporting extended working hours				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Ongoing maintainance of current infrastructure and equipment		Responsible Officer: Strategic Director of Corporate Services	Target Date: N/A	

Appendix 2: COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD- 6 Significant number of staff affected by COVID-19 leading to a reduction in service delivery, specifically in services identified as critical.	Strategic	Inability to deliver services			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Sickness monitoring being undertaken • Staff skills audit undertaken • Critical staff being reviewed regarding testing • Redeployment processes in place				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Ongoing assessment of data and redeployment requirements		Responsible Officer: Strategic Director of Corporate Services	Target Date: Ongoing	

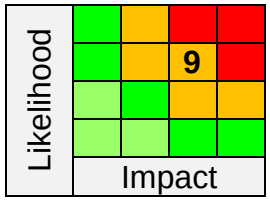
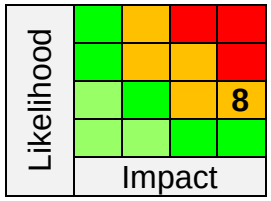
Appendix 2: COVID-19 Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD- 7 Further lockdown of Leicester and surrounding areas following surge in number of cases leading to increased restrictions in areas of the borough affecting businesses and residents. Also leading to increased media coverage. Ongoing monitoring or trends in the County and Borough	Strategic	Officer time diverted from recovery and back to response. Risk of reputational impact as requirement to respond in reasonable way Increased importance of regular data monitoring			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• PHE and PH Leicester and Leicestershire carefully reviewing the data through regular meetings • Montoring COVID trends • Increased LRF activity • Increased testing in affected locations • Increased community messages in affected locations • Review of high risk locations / businesses • Review of potential testing locations • Reviewing the use of Council resources				
Risk Owner	Strategic Director of Corporate Services				

Appendix 2: COVID-19 Risk Register

Planned Future Actions and Responsible Officer(s).	Description: Ongoing assessment of data and response	Responsible Officer: Strategic Director of Corporate Services	Target Date: Ongoing

Charnwood specific risk regarding monitoring of data and compliance visits and actions

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
CVD-8 Risk that introducing agile working and a greater need for staff to work from home that staff will encounter health issues leading to increased sickness absence and staff retention.	Strategic	• Long terms sickness absence – both physical and mental issues • Staff retention			KEEP UNDER CONSTANT REVIEW
Current Treatments and Controls	• Revised DSE Assessments developed				
Risk Owner	Strategic Director of Corporate Services				

Appendix 2: COVID-19 Risk Register

Planned Future Actions and Responsible Officer(s).	• Description: • Generic Staff Homeworking VDU Assessments to be updated • PPE equipment requirements on-going reviewed and inform SLT	Responsible Officer: Head of Regulatory Services (Chair of Health & Safety Group)	Target Date: Ongoing

AUDIT COMMITTEE – 22nd SEPTEMBER 2020

Report of the Head of Strategic Support

Part A

ITEM 11 COUNCIL'S USE OF REGULATORY OF INVESTIGATORY POWERS ACT (RIPA)

Purpose of Report

The purpose of this report is to provide the Committee with a summary of the Council's use of RIPA powers.

Recommendation

The Committee notes that there has been no use of RIPA powers by the Council for the period from 1 May 2020 to 31 August 2020.

Reason

To enable the Committee to comply with the request from Cabinet that the Audit Committee assumes responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

Policy Justification and Previous Decisions

The use of RIPA to conduct covert surveillance in appropriate instances supports many of the Council's enforcement and anti-fraud policies. The Home Office Code of Practice, which relevant bodies are obliged to follow when using RIPA, requires that elected Members should consider reports on the use of RIPA on at least a quarterly basis to ensure that is it being used consistently with the policy and the policy remains fit for purpose.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None.

Risk Management

There are no risks associated with this decision.

Background Papers:	Home Office Code of Practice – Covert Surveillance &Property Interference (2014)
Officer to contact:	Adrian Ward (01509 634573) adrian.ward@charnwood.gov.uk

Part B

Background

1. RIPA provides for the authorisation of covert surveillance by the Council where that surveillance is likely to result in the obtaining of private information about a person.

2. Surveillance includes monitoring, observing or listening to persons, their movements, conversations or other activities and communications. Surveillance is covert if it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place.

3. The Council only has the power to authorise covert surveillance under RIPA for the purpose of preventing or detecting crime, or of preventing disorder. Since 2012, RIPA applications are required to be approved by a Justice of the Peace (JP) at the Magistrates' Court in addition to the existing application and authorisation process. The amendments in the Protection of Freedoms Act 2012 mean that local authority authorisations and notices under RIPA for the use of particular covert investigation techniques can only be given effect once an order approving the authorisation or notice has been granted by a Justice of the Peace (JP)

4. At its meeting on 13 February 2020 Cabinet agreed to resolve that the Audit Committee continue to assume responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose. This Committee will therefore continue to receive a regular report on the Council's use of RIPA powers.

5. During the period from 1st May 2020 to the 31st August 2020 the Council made no use of RIPA powers.

6. The Committee has the option to report to Cabinet any concerns arising from RIPA monitoring reports that may indicate that the use of RIPA is not consistent with the Council's RIPA Policy or that the Policy may not be fit for purpose.

AUDIT COMMITTEE – 22ND SEPTEMBER 2020

Report of the Head of Strategic Support

ITEM 13 WORK PROGRAMME

Purpose of Report

To enable the Committee to consider its Work Programme.

Action Requested

that the Committee considers any items that it wishes to add to or amend, in its work programme for future meetings;

Reason

To enable the Committee to identify future items of business and enable planning for future meetings to be undertaken, for example preparing reports and arranging for the attendance of officers and/or others at meetings.

Background

The Work Programme agreed at the last meeting of the Committee is attached as an appendix for the consideration of the Committee.

Officer to contact: Nadia Ansari
Democratic Services Officer
(01509) 634502
Nadia.ansari@charnwood.gov.uk

ISSUE	MEETING
Internal Audit Business	Ongoing
2019/20 Statement of Accounts	November 2020 (Accounts Meeting) Annually
2019/20 Annual Governance Statement and Review of the Code of Corporate Governance	November 2020 (Accounts Meeting) Annually
Internal Audit Plan – Progress	22nd December 2020 Quarterly
Risk Management (Risk Register)	22nd December 2020 Quarterly - detailed report every six months, exception report quarters in-between.
Risk register COVID-19	To be scheduled
Council's Use of Regulation of Investigatory Powers Act (RIPA)	22nd December 2020 Quarterly

2019/20 Annual Internal Audit Report	June 2021 Annually
2019/20 Review of the effectiveness of Internal Audit (Feedback from Panel)	June 2021 Annually
Internal Audit Charter	June 2021 Annually (for approval)
2019/20 Members' Allowances Claimed	June 2021 Annually
Whistle Blowing and Anti-fraud, Corruption and Bribery	June 2021 Annually
Environmental Audits – Report on Outcomes	June 2021 Annually *Note: Six month exception report where identified actions are not implemented by the target date.*
2020/21 Treasury Management Outturn	June 2021 Annually

Environmental Audits Outcomes – Progress update	September 2021
Annual IT Health Check (Code of Connection) ***Confidential Report***	September 2021 Annually
Treasury Management Mid-Year Review	September 2021 Annually
2020/21 Treasury Management Statement, Annual Investment Strategy and MRP Strategy	February 2021 Annually
2021/22 Internal Audit Plan	February 2021 Annually
Future of Local Public Audit	Report on Government proposals considered 5th July 2011. Further report once final regulations/guidelines are known. Note: Appointing Your External Auditor briefing note considered June 2016.
Policy for Engagement of External Auditors for non-audit work	Considered March 2013. Review policy - date to be agreed
External Audit Business	Ongoing
External Audit Progress Report and Technical Update	22nd December 2020 Quarterly
2019/20 Annual Governance Report	November 2020 (Accounts Meeting) Annually
2020/21 Annual Audit Letter	February 2021 Annually
2021/22 External Audit Plan	February 2021 Annually