AUDIT COMMITTEE

This meeting will be recorded and the sound recording subsequently made available via the Council's website: charnwood.gov.uk/pages/committees

Please also note that under the Openness of Local Government Bodies Regulations 2014 that other people may film, record, tweet or blog from this meeting. The use of any images or sound recordings is not under the Council's control.

To: Councillors Bolton (Vice-Chair), S. Bradshaw, Charles, Parsons, Boldrin and Taylor
Mr Angell (Chair)
(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, 9th February 2021 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

1st February 2021

AGENDA

1. APOLOGIES

2. MINUTES OF THE PREVIOUS MEETING 3 - 7

   The Committee is asked to confirm as a correct record the minutes of the meeting of the Committee held on 22nd December 2020.

3. DISCLOSURES OF PECUNIARY AND PERSONAL INTEREST

4. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions were submitted.

11. EXEMPT INFORMATION

It is recommended that members of the public be excluded from the meeting during the consideration of the following item on the grounds that it will involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

12. GOVERNANCE AND RISK ASPECT OF COMMERCIAL INVESTMENT AND PERFORMANCE REVIEW

An exempt report of the Strategic Director for Commercial Development, Assets and Leisure, circulated to members of Committee. **To Follow.**

AUDIT COMMITTEE
22ND DECEMBER 2020

PRESENT: The Chair (Mr Angell)
The Vice Chair (Councillor Bolton)
Councillors S. Bradshaw, Charles, Parsons, Boldrin and Taylor

Strategic Director; Environment and Corporate Services
Head of Strategic Support
Head of Financial Services
Internal Auditor
Senior Auditor
Democratic Services Officer NWLDC (RW)

APOLOGIES: none

The Vice-chair stated that the meeting would be live streamed and the recording made available via the Council's website. She 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.

32. MINUTES FROM THE PREVIOUS MEETING

The minutes of the meeting held on 25th November 2020 were confirmed as a correct record and signed.

33. DISCLOSURES OF PECUNIARY AND PERSONAL INTEREST

No disclosures were made.

34. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

The Chair joined the meeting at 6.05pm and took over chairing the meeting from this point.

35. EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE

In the absence of a representative from the External Auditors, a verbal update was provided by the Strategic Director; Environment and Corporate Services.

The Committee were advised that the position remained the same with regards to the Annual Statement of Accounts, sign off was still not possible due to the incomplete audit of the pension fund. Members were told that this was an issue affecting all local authorities in Leicestershire and that generally, due to COVID, delays in audit completion was affecting many local authorities across the country.

RESOLVED That the update be noted.

Reason

To acknowledge the Committee's consideration of this item.

36. TREASURY MANAGEMENT MID-YEAR REVIEW

A report of the Head of Financial Services was submitted reviewing the Treasury Management Strategy and the Annual Investment Strategy (item 6 on the agenda filed with these minutes).

The Strategic Director; Environment and Corporate Services and the Head of Financial Services attended to assist with the consideration of this item.

It was noted that there was a minor error in the table at section 4.1 'Prudential Indicator for Capital Expenditure', the totals were correct, but it did not show that they cross cast, therefore it would be amended.

Members discussed the possible increase in risks in relation to the investment portfolio due to the Covid-19 outbreak. The Committee was reassured that officers worked closely with the external treasury advisors and weekly checks were undertaken on the position of all investments.

Following a query in relation to the MRP Strategy, it was confirmed that as it was a new financial transaction for the 2021/22 budget, a new account entry would be required going forward and that the income would form an unusable reserve that would be continually monitored. It was also noted that a report would be considered in the new year when more information was available, and the Head of Financial Services confirmed that all financial transactions in relation to commercial property would be recorded following the CIPFA Code of Practice.

In reference to the allocation of funds for the Enterprise Zone, it was noted that there were further projects in the pipeline and a report could be available for presentation to Cabinet in February 2021. It was noted that due to tight reporting timescales, there was a possibility that Council would not consider the report until February rather than January as stated in the implementation timeline.

RESOLVED That it be recommended to Council to note this mid-year review of the Treasury Management Strategy Statement, Prudential Borrowing and Treasury Indicators plus the Annual Investment Strategy, as set out in Part B

Reason

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

37. INTERNAL AUDIT PROGRESS REPORT 2020/21 Q3 (INTERIM)

A report of the Head of Strategic Support was submitted summarising the progress against the 2020/21 Audit Plan (item 7 on the agenda filed with these minutes).

The Head of Strategic Support and Senior Auditor attended to assist with the consideration of this item.

It was noted that there was an error in recommendation 4.1 of Appendix C 'Recommendations Tracker' as the target date should state 'March 2021' rather than 'October 2020'.

The Committee were advised in response to questions that:

- the external assessment of Internal Audit carried out in November had been commissioned by the Internal Audit Service and the Chair of the Audit Committee had been interviewed as part of the process. It was agreed for the name of the assessor to be provided to the Vice-chair.
- The target for planned work was very achievable as at present the plan was 70 – 75% complete and everything was in place to start the engagement process with team managers at the beginning of January.
- There was an escalation policy in place to involve senior members of staff when responses were not received from follow up emails sent by Internal Audit. This route was usually successful but in relation to the Voids Management audit, it had unfortunately been a very difficult year.
- It was expected that the money lost from overpayments and fraudulent claims through the business grants during the Covid-19 outbreak would be covered by Central Government, however process guidance was still pending. The Committee's disappointment in relation to the number of fraudulent claims was noted. Also, the hard work undertaken by officers to administer the grant scheme was recognised.

RESOLVED that the committee noted the progress report as set out in Appendix 1.

Reason

To ensure the Committee is kept informed of progress against the Internal Audit plan and work of Internal Audit.

38. RISK MANAGEMENT (RISK REGISTER) UPDATE

A report of the Strategic Director; Environment and Corporate Services was submitted providing details of the Strategic Risk Register produced for the period 2020-21 (item 8 on the agenda filed with these minutes).

The Strategic Director; Environment and Corporate Services attended to assist with the consideration of this item.

The Committee were advised in response to questions that:

- In relation to risk SR4 ‘significant reduction in external funding and/or income generated’, the high number of treatments and controls were necessary due to the nature of the risk. It was very difficult to impact the risk directly, therefore the controls were put in place to attempt to have an influence as it required a lot of monitoring.
- In relation to risk SR6 ‘the proposed Environment Bill’, it would be continually monitored but as implementation was not planned until 2023/24, it was not something to be concerned with for the upcoming budget.
- In relation to risk SR2 ‘inadequate data sharing and data security arrangements’, the Committee was reassured that an exercise had been undertaken due to the exit from the European Union and that as the authority had no offshore data storage, it was compliant.

RESOLVED that the Committee noted 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.

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

A report of the Head of Strategic Support was submitted providing a summary of the Council’s use of RIPA powers (item 9 on the agenda filed with these minutes).

The Head of Strategic Support attended to assist with the consideration of this item.

RESOLVED that the Committee noted there had been no use of RIPA powers by the Council for the period from 1st September 2020 to 30th November 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.

40. WORK PROGRAMME

A report of the Head of Strategic Support was submitted to enable the Committee to consider its work programme (item 10 on the agenda filed with these minutes).

In relation to the wording of Action 2, the Committee welcomed including a quarterly standing item on commercial property acquisitions but considered that the wording should be widened to allow any aspect of the Commercial Investment Strategy to be reviewed, not just the acquisition element. During the discussion, reference was made to the monitoring of the performance of the strategy which all felt would sit better with a scrutiny committee rather than the Audit Committee; however all were in agreement that having sight of the performance data would help Members review the governance aspect.

The following wording was agreed for Action 2:

‘that a standing item is included on the Committee’s work programme to review the governance and risk aspect of the Commercial investment and performance on a quarterly basis.’

Officers confirmed that the first quarterly report would be presented to the Audit Committee in February.

RESOLVED

1. that the Committee proceeds on the basis of the work programme as attached to this agenda item, incorporating decisions made at this meeting;

2. that a standing item is included on the Committee’s work programme to review the governance and risk aspect of the Commercial investment and performance on a quarterly basis.

Reason

1. 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.

2. To ensure that Commercial Property acquisitions are monitored appropriately to ensure transparency and due diligence.

NOTES:

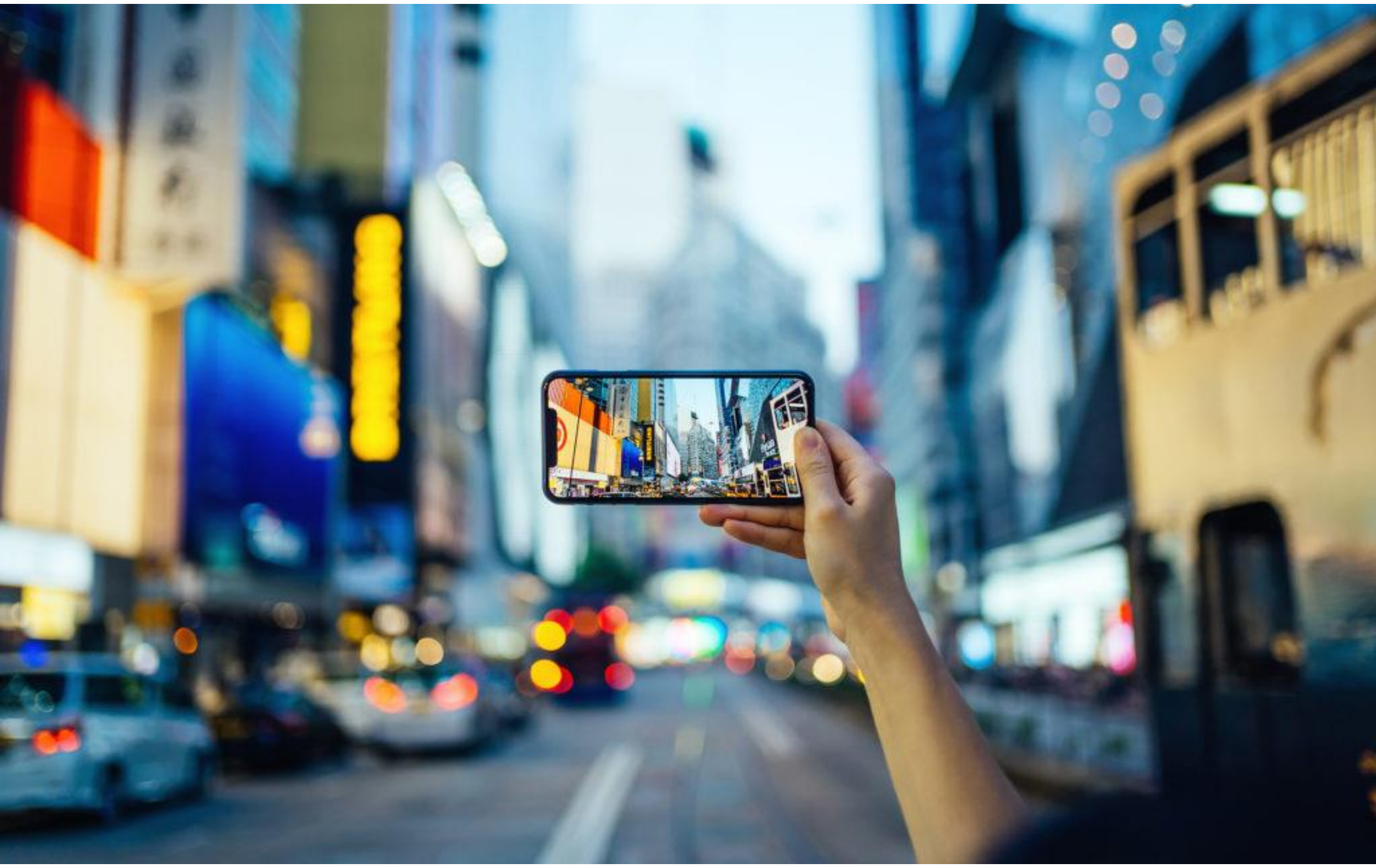
1. No reference may be made to these minutes at the next ordinary Council meeting unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

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

Annual Audit Letter

Charnwood Borough Council

Year ending 31 March 2020



mazars

Contents

1. AUDIT COMPLETION

Audit Completion Update – Year ended 31 March 2020

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 25 November 2020.

Area of responsibility	Assessment	Summary
Property, plant and Equipment	● [Green]	Our procedures are complete, with no further matters to raise. A summary of findings is included in this report, including explanation of the 'emphasis of matters' on the following pages.
Pensions	● [Green]	Our procedures are complete. A summary of findings is included in this report, including explanation of the 'emphasis of matters' on the following pages.
Collection Fund	● [Green]	Our procedures are complete, with no matters to raise.
Whole of Government Accounts (WGA)	● [Green]	Our procedures are complete, with no matters to raise.
Audit Quality Control and Completion Procedures	● [Green]	Our audit work is at the stages of review by the Engagement Lead, with residual procedures that must take place through to the date of issuing the Audit Report, such as updating post balance sheet event considerations to the point of issuing the opinion, obtaining final management representations and clearance of the emphasis of matters paragraph for the Audit Report.

1. AUDIT COMPLETION

Our response to significant audit risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the final position on two of the identified significant risks where work was incomplete in November 2020.

Valuation of property, plant and equipment and investment properties The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we determined there is a significant risk in this area.	We performed a range of audit tests, including, but not limited to: • Assessing the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Considering whether the overall revaluation methodology used by the Council's valuer is in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Assessing whether valuation movements are in line with market expectations by reference to alternative sources of valuation data to provide information on regional valuation trends; and • Considering the impact of assets not revalued in 2019/20 to ensure these remained materially correct at the balance sheet date.	We completed our audit procedures, with one audit adjustment being made to ensure the valuation of one asset correctly reflected its up-to-date floor area. The Council's valuer declared that the valuation of the Council's property assets were subject to 'material valuation uncertainty' as a result of COVID-19 and this was disclosed in the financial statements and referred to in the 'emphasis of matter' paragraph in our audit report. A 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon, only that, because of the extraordinary circumstances arising from COVID-19, less certainty can be attached to the valuation. There are no other matters to report.

1. AUDIT COMPLETION

Our response to significant audit risks

Identified significant risk	Our response	Our findings and conclusions
Valuation of the Net Pension Liability The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we determined there is a significant risk in this area.	relation to the valuation of the Council's defined benefit pension liability in addition to our standard programme of work in this area we: • review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office; • agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; • critically assess the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary; and • liaise with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate.	We received our assurance from the auditor of the Leicestershire Pension Fund on 17 December 2020. This confirmed a 'material valuation uncertainty' on the Pension Fund's property assets. The Council's share of these property assets recorded in the balance sheet is therefore also affected. This has been disclosed in the financial statements and incorporated into the 'emphasis of matters' paragraph in our Audit Report. In reviewing the work of the pension fund auditor, we also noted: • A £5m difference has been reported between the value of scheme assets per the 2019 Triennial Actuarial Report (£4,312m) and the value of scheme assets per the Pension Fund audited financial statements as at 31 March 2019 (£4,307m). • The Council's pension benefits payable sent to the actuary was £5,479k. The Pension Fund auditor agreed the benefits paid data to the underlying information system maintained by the pension fund, noting a difference of £292k. This has no impact on the net pension liability in the Council's balance sheet. • The Pension Fund submitted asset information to the actuary as at 31 December 2019 and not 31 March 2020. The actuary then estimated asset investment returns as -4.6%, whereas the actual return for the period was -3.56%. In July 2020, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension fund liability as at 31 March 2020. The Council obtained an updated actuarial valuation to identify whether the pension fund assets and liabilities require adjustment, with the net impact being a £278k movement in the pension liability that management has chosen not to adjust for. There are no other matters to report from the work we have performed.

1. AUDIT COMPLETION

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £47k.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

There are no new matters to report.

	Income Statement		Balance Sheet	
	Dr	Cr	Dr	Cr
Dr: Balance Sheet – Pension Liability			278	
Cr: CIES – Past Service Cost		278		
Represents a reduction in the pension liability as a result of the McCloud remedy.				
DR Balance Sheet – Other Land and Buildings			151	
Cr: Balance Sheet – Revaluation Reserve				146
Cr: Balance Sheet – Capital Fund Adjustment Account				5
Represents an increase in other land and buildings as a result of an incorrect floor space being held on record				

Adjusted misstatements 2019/20

From the work performed to date, we have identified one misstatement which exceeds our audit materiality,

	Income Statement		Balance Sheet	
	Dr	Cr	Dr	Cr
Dr: Balance Sheet – Other Land and Buildings			1,306	
Cr: CIES Surplus or Deficit on Provision of Services		1,342		
Dr: Balance Sheet – Revaluation Reserve			36	
Represents an increase in other land and buildings as a result of an incorrect floor space being held on record.				
	0	1,342	1,342	0

2. AUDIT FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£42,325	£42,325
Fee Variations*:		
• Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes		£7,067
• Additional costs associated with 2019/20, including, but not limited to: • Impact of 'Material Valuation Uncertainty' in Council's Assets and its share of Pension Fund Assets • Updating audit risk assessments, including the value for money conclusion • Additional considerations of estimation uncertainty in going concern, • Changes impacting pension liabilities through McCloud & Goodwin		£5,032
Final audit fee		**£54,424**
Assurance related services**:		
• Housing benefit		£10,100
• Pooling of Housing Capital Receipts		£3.000
Assurance		**£13,100**

**Fee variations subject to confirmation from PSAA.*

***Work is ongoing*

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

3. MANAGEMENT REPRESENTATION LETTER

Mazars LLP
45 Church Street
Birmingham
B3 2RT
[Date]
Dear Sirs

Charnwood Borough Council- audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Charnwood Borough Council (the Council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Strategic Director of Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

Material Valuation Uncertainty

The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value. The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the valuations recognised within the Statement of Accounts being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market. I am satisfied that sufficient and appropriate disclosures have been made in the Statement of Accounts to reflect the impact of 'material valuation uncertainty' on the Council's assets.

3. MANAGEMENT REPRESENTATION LETTER

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Strategic Director of Corporate Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed to you in accordance with the requirements of the Code and applicable law.

I have disclosed identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the balance sheet date. I have considered the impact of Covid-19 on our Investment Properties. An impairment review is therefore not considered necessary.

Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

3. MANAGEMENT REPRESENTATION LETTER

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Covid-19

We confirm that we have carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

Brexit

We confirm that we have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the potential outcomes at the end of the Implementation Period, and that the disclosure in the Statement of Accounts fairly reflects that assessment

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

I have updated our going concern assessment in light of the Covid-19 pandemic. I continue to believe that the Council’s financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council’s needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS

Narrative report

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements

Yours faithfully

Strategic Director of Corporate Services

4. AUDIT REPORT

TO BE UPDATED FOLLOWING CONSULTATION

Independent auditor's report to the members of Charnwood Borough Council

Report on the financial statements

Opinion

We have audited the financial statements of Charnwood Borough Council for the year ended 31 March 2020, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Charnwood Borough Council as at 31st March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of land, buildings and investment properties

We draw attention to Note X of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land, buildings and investment properties and the valuation of the Council's share of Leicestershire Pension Fund's property assets. As disclosed in Note X of the financial statements, the Council's and Pension Fund's valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic creating a shortage of relevant market evidence on which to base their judgements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

4. AUDIT REPORT

Other information

The Strategic Director of Corporate Services is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Strategic Director of Corporate Services for the financial statements

As explained more fully in the Statement of Responsibilities, the Strategic Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Strategic Director of Corporate Services is also responsible for such internal control as the Strategic Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Strategic Director of Corporate Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Strategic Director of Corporate Services is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

4. AUDIT REPORT

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Charnwood Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Charnwood Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

4. AUDIT REPORT

Use of the audit report

This report is made solely to the members of Charnwood Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of Charnwood Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Surridge
For and on behalf of Mazars LLP

45 Church Street
Birmingham
B3 2RT

Date

5. FORWARD LOOK: AUDIT CHANGES 2020/21

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

- Financial sustainability: how the body plans and managers its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and fees.

5. FORWARD LOOK: AUDIT CHANGES 2020/21

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The full report is available here: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

The recommendations and findings have been considered by the Ministry of Housing, Communities and Local Government and a response was published in December 2020

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review

The main highlights are a recognition that fees are not sufficient to meet the work required, and the date for publication of audited accounts has been confirmed as 30th September for the 20/21 and 21/22 financial years (with a commitment to review whether it is realistic to return to a 31st July date)

A new body to oversee local audit will not be created, however, a new, audited 'standardised statement of service information and costs' to be produced by LG bodies, with CIPFA being asked to work on this for introduction in 21/22.

CONTACT

Mark Surridge

Director

Email: mark.surridge@mazars.co.uk

Victoria Gittings

Manager

Email: victoria.gittings@mazars.co.uk

CABINET – 11TH FEBRUARY 2021

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 2021/22

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 latest version of the Medium Term Financial Strategy (covering financial years 2021 - 2024) outlines the prospective financial challenges facing the Council and the contribution expected of the Investment Strategy in mitigating these challenges.

Implementation Timetable including Future Decisions and Scrutiny

If approved by Council the Capital Strategy (including its component strategies) will come into effect from 1 April 2020.

This report is available for the consideration of the Scrutiny Commission on 8 February 2020.

In line with governance requirements the Capital Strategy and associated Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy will also be presented to the Audit Committee on 9 February 2021.

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)	Significant (2)	Low (4)	Strategy developed in accordance with CIPFA guidelines and best practice. Adherence to clearly defined treasury management policies and practices

Risk Identified	*Likelihood*	*Impact*	*Overall Risk*	*Risk Management Actions Planned*
Loss of council funds through failure of borrowers	Remote (1)	Serious (3)	Low (3)	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	Unlikely (2)	Significant (2)	Low (4)	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)	Serious (3)	Moderate (6)	Professional advice will be sought in advance of non-standard or new investment activity outside knowledge base within the Council. 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

Officers to contact:

Lesley Tansey
Head of Finance and Property Services
(01509) 634828
lesley.tansey@charnwood.gov.uk

Simon Jackson
Strategic Director of Corporate Services
(01509) 634699
simon.jackson@charnwood.gov.u

Part B

<u>Background</u>

1. 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’.

2. The Council’s treasury management activities also fall within the scope of the Prudential Code.

3. 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

4. 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)

5. 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 2021/22</u>

6. The aspiration of creating a commercial investment property portfolio with a value of up to £25m set out in the previous iteration of the Capital Strategy has been achieved, and this is reflected within the capital spend of £22.7m in the 2020/21 financial year.

7. In the Chancellor's autumn statement new regulations were introduced preventing access to Public Works Loan Board (PWLB) borrowing for local authorities that included investment in property (or other assets) for yield purposes within their capital programmes (whether or not borrowing was linked to a specific investment asset). Notwithstanding the commercial property purchases it has not yet been necessary for the Council to access external borrowing (cash balances having enabled acquisitions via 'internal' borrowing). Additionally, it may be noted that there are other sources of debt finance other than the PWLB.

8. However, PWLB is typically cheaper and easier to access than alternative sources of debt finance, and given that the Council retains an ambitious capital plan in other areas (principally economic development and regeneration) that would require external borrowing no further investment in commercial investment property is planned for 2021/22 pro tem.

9. Dependending on the type and availability of other debt finance, and possible options for ringfencing future commercial property investments, this investment activity may be reconsidered in future years. Any recommencement would be need to be approved through updates to the extant Capital Strategy and Capital Plan.

10. Other than cessation of commercial property investment there are no other significant changes and matters of note within the the proposed 2021/22 Capital Strategy compared to its predecessor.

11. As stated in Part A, this report 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.

Appendices

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 (snapshot at 6 January 2020)

B (7) Treasury management scheme of delegation

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

APPENDIX A

Charnwood Borough Council

Capital Strategy

2021 – 2022

Foreword

This is now the third Capital Strategy which 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.

In the previous version of the Capital Strategy we talked about our intention of developing a portfolio of commercial property to help us mitigate the financial challenges that were apparent in the extant Medium Term Financial Strategy but warned that the rules around borrowing to finance commercial property were likely to change. The rule change was confirmed within the Chancellor's autumn statement and as a result we have concluded that our investment in commercial property will cease, at least temporarily, whilst we evaluate options that remain open to us.

Whilst this new strategy reflects the halt in commercial property investment, other elements of the previous Capital Strategy which set out how we plan to support our communities as we (hopefully) emerge from the worst impacts of the COVID-19 pandemic remain, and are possibly more important than ever. These include creating the policies that support regeneration of our town centres, and enabling investment in the Enterprise Zone to support job creation in the Borough.

The Council holds significant cash balances and this is an important resource which we are planning to use more proactively. We continue to look for ways to refine our treasury operations and seek to minimise our external borrowing requirement. However, we believe the policy changes introduced with the previous Capital Plan remain appropriate and no further changes are proposed at this time.

Security and liquidity will still be key elements of the Council's approach to financial management but the 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

January 2021

CONTEXT

The Capital Strategy, in common with other strategies produced by the Council supports the overarching Corporate Strategy; see:

https://www.charnwood.gov.uk/files/documents/charnwood_borough_council_corporate_strategy_2020_2024/Charnwood%20Borough%20Council%20Corporate%20Strategy%202020-24%20FINAL%2027.02.20.pdf

This strategy sets out the vision for the Borough as follows:

'Charnwood is a borough for innovation and growth, delivering high-quality living in urban and rural settings, with a range of jobs and services to suit all skills and abilities and meet the needs of our diverse community.'

In supporting this vision capital expenditure plans are in place for ambitious improvements in the public realm through investment in the Bedford Square area of Loughborough and £15m set aside for regeneration investment to support the Loughborough Town Deal and other opportunities across the Borough. There will also be continued investment across the Borough ensuring that our public realm and open spaces are maintained and enhanced to the standard that residents deserve.

The Council's capital expenditure plans will support and create economic prosperity for the Borough. A training and skills hub, developed in conjunction with Loughborough College will open in the near future following a £0.8m investment whilst an initial £2m investment in the Enterprise Zone has been agreed out of a total £15m fund earmarked for this purpose which, working with public-sector partners and local businesses, will bring new jobs to the area.

Enabling this vision requires the Council to be financially sustainable and the commercial investment property element within the extant capital plan (now delivered) and a more robust approach to future capital appraisals reflect this need.

The Capital Strategy shows how these expenditure plans are governed, the financing requirements they imply, the impact on revenue budgets and the method by which the Council aims to mitigate some of the risks involved in this expenditure.

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 Section 151 Officer (or 's151' – essentially a local authority's Finance Director as defined by Section 151 of the Local Government Act 1972) 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 s151 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 s151 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. In the light of the COVID-19 pandemic the extant plans were refreshed and merged to form a revised plan for the years 2020-2023. See:

https://charnwood.moderngov.co.uk/documents/g318/Public%20reports%20pack%2009th-Nov-2020%2018.30%20Council.pdf?T=10

1.3.2. In totality, to 31 March 2023, capital expenditure (including externally funding) was 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

1.3.3. Of these amounts (to January 2021):

- No monies have been spent under the Regeneration heading and it is envisaged that funding will be carried forward into future years
- Forward funding for a project at the Charnwood Campus site has been agreed (Cabinet – October 2020)

  (see: https://charnwood.moderngov.co.uk/mgChooseDocPack.aspx?ID=593)

  with £2m of forward funding being made available in January 2021; it is envisaged that funding will be carried forward into future years
- A commercial property portfolio with total acquisition costs of £23m has been created; given changes in rules around borrowing to finance commercial property no additional acquisitions are currently planned

1.3.4. It should be stressed that inclusion of the above within the Capital Plan, does not imply that any of the above amounts will ultimately 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 ability to borrow to fund capital expenditure. At this point in time the Council has been able to finance prudential borrowing internally, taking advantage of cash flows inherent within the Council's operations (ie. cash outgoings typically lag the associated cash inflows, often by months or years). So far it has not been necessary to use external borrowing to fund General Fund capital expenditure but some level of external borrowing is likely to be required if the Council is to complete the delivery its Capital Plan within the projected timescales (and over the medium term as and when the positive cash flow position reverses).

1.3.7. The Council has taken out external 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. Following a period of consultation the Government has now restricted access to Public Works Loan Board finance for local authorities wanting to access PWLB funding where that local authority plans to purchase commercial investment property for yield – whether or not any loan is specifically attached to an individual commercial property.

2.3. Alternative sources of finance exist, such as the Muncipal Bonds Agency (owned by a local authority group) and commercial institutions, sometimes at rates that are competive with the PWLB, but at this point in time it is concluded that the Council’s investment in commercial property will cease, at least temporarily whilst alternatives to PWLB finance are considered.

2.4. Any recommencement of investment in commercial property would be need to be approved through updates to the extant Capital Strategy and Capital Plan.

2.5. 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.

2.6. 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 2021/22

3.4. No changes are proposed further to those introduced by the 2020/21 Capital Strategy.

4. Commercial investments

4.1. As has now been the case for some years, 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>

The Council has now developed a commercial investment property portfolio totalling £22.5m. As noted, previously no further investments of this type are planned pro tem.

Management of existing portfolio (including risk mitigation)

The Council's commercial investment property portfolio can be summarised as follows:

Location	*Property type*	*Gross acquisition costs (£m)*	*Annual rent*	*Remaining lease term (at Jan 2021)*
Loughborough	Car showroom	2.4	165	14 years
Banbury	Offices	7.7	540	5 years
Aberdeen	Industrial	3.6	211	10 years
Scunthorpe	Industrial	8.8	550	15 years
		22.5	**1,466**	

The 2021/22 budget for commercial property income is set at £0.65m, being a net figure that allows for charges for interest and Minimum Revenue Provision, and the creation of a property reserve that allows for possible tenant non-payment (considered a very low probablilty based on tenant due diligence performed) and prospective periods of void and dilapidation costs that may arise at the end of the lease term. An allowance is also made for additional management costs arising from the acquisitions. These elements are analysed below:

(all figures £000)	*2021/22 (Budget)*	*2022/23 (Projection)*	*2023/24 (Projection)*
Gross rent	1,466	1,466	1,466
MRP charge (40-year annuity life method)	(286)	(295)	(304)
Interest charge (based on internal borrowing)	(113)	(113)	(113)
Portfolio management charges	(50)	(50)	(50)

(all figures £000)	*2021/22 (Budget)*	*2022/23 (Projection)*	*2023/24 (Projection)*
Contribution to reserve (balancing figure)	(367)	(358)	(349)
Net contribution to revenue budget	**650**	650	650

It may be noted that the above figures exclude net income from the Loughborough vaccination centre that may arise in the 2021/22 financial year; such income is likely but not contractually certain, and hence excluded from the above calculation.

The figures also exclude the Loughborough skills hub situated in Loughborough. This is owned by the Council but purchased with Government grant money, and let to Loughborough College at peppercorn rent for the initial rental period of three years. Subsequently it is anticipated that the property will either generate a capital receipt or generate rentals on a commercial basis.

It can be seen by inspection that the total property reserve should exceed £1m before the first identified lease event (expiry of lease term on the Banbury property on 12 December 2025).

Finally, it may also be noted that the commercial property portfolio will be actively managed, to minimise (inter alia) void losses and dilapidation payments.

It is planned that reporting and monitoring of the commercial property portfolio will be undertaken by the Audit Committee.

<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 2021/22 – 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

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

[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)

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 creation of a Property Development Company (probably with a housing focus) remains a possible course of action for the Council. 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 2021/22 - 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 2021/22 - 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 was assumed that this funding is phased £5m in 2021/22 and £10m in 2022/23. This profiling will now be amended in the next Capital Plan update to reflect the slippage.

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 2021/22 - 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 was profiled for the 2020/21 financial year to ensure there is no impediment to investment opportunities but in practice it is likely that £2m will be allocated in this year, with the balance to be reprofiled in future years as appropriate.

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

2021/22

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 enconomic 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.

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 2021/22 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.

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 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues

- Capital expenditure 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 Group Treasury Solutions as its external treasury management advisors.

The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon 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.

2. THE CAPITAL PRUDENTIAL INDICATORS 2021/22-2023/24

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

2.1 Capital expenditure

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	*2020/21 Budget Estimate £'000*	*Actual Spend 31/12/2020 £'000*	*2021/22 Budget Estimate £'000*	*2022/23 Budget Estimate £'000*
General Fund - general	12,529	5,269	4,058	2,469
Commercial Investments	25,000	22,708	0	0
Enterprise Zone	15,000	0	0	0
Regeneration	5,000	0	10,000	0
HRA	8,941	2,389	7,381	7,724
Total	**66,470**	**30,366**	**21,439**	**10,193**

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	*2020/21 Budget Estimate £'000*	*2021/22 Budget Estimate £'000*	*2022/23 Revised Estimate £'000*
Total Capital Expenditure as per above table	**66,470**	**21,439**	**10,193**
Financed by:			
Capital receipts	6,052	3,233	1,776
Capital grants/NHS Funding	4,149	1,274	1,143
Capital reserves	662	0	0
HRA Revenue Contributions	8,207	6,932	7,274
Internal /External Borrowing	47,400	10,000	0
Total Funding	**66,470**	**21,439**	**10,193**

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, 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 (£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	***2020/21 Original Budget £'000***	***2021/22 Budget Estimate £'000***	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***
CFR – (Fleet Less MRP)	2,400	2,100	1,800	1,500
CFR – (Commercial Activites Less MRP)	25,000	22,215	21,921	21,617
CFR – (Regeneration Less MRP)	5,000	15,000	14,810	14,614
CFR – (Enterprise Zone No MRP)	15,000	15,000	15,000	15,000
CFR – (HRA – No MRP)	81,820	81,820	81,820	81,820
Total CFR	**129,220**	**136,135**	**135,351**	**134,551**
Movement in CFR represented by:				
Net financing need for the year	44,900	7,500	0	0
Less MRP/VRP and other financing movements	0	(585)	(784)	(800)
Movement in CFR	**44,900**	**6,915**	**(784)**	**(800)**

2.3 Core Funds and Expected investment balances

The application of resources (Capital Plan Reserves, Capital Receipts, HRA Major Repair Reserve, HRA Financing Fund) 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.

Year End Resources £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Plan reserves	1,980	1,819	1,819	1,819	1,819
Capital receipts	12,007	6,655	5,222	3,946	3,946
Growth Fund	101	0	0	0	0
HRA MRR	3,364	3,111	3,111	3,111	3,111
HRA Financing Fund	8,234	6,320	6,028	5,388	5,388
Total core funds	**25,686**	**17,905**	**16,179**	**14,263**	**14,263**

The Revised Capital Plan approved 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 2021/22 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	126,090	133,590
Expected change in Debt	0	44,900	7,500	0
Actual debt at 31 March	**81,190**	**126,090**	**133,590**	**133,590**
Capital Financing Requirement above 2.2	81,820	129,220	136,135	135,351
Under borrowing	**630**	**3,130**	**2,545**	**1,761**

The table shows that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. Within the above figures there is some £52.4m debt that relates to the finance of the Environmental Services fleet, new commercial activities and non-financial investments.

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 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The 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	108,090	108,090	108,090
Non-financial investments	0	18,000	28,000	28,000
Total	**81,190**	**126,090**	**136,090**	**136,090**

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 limits (as shown in the table below) has been set based on the current capital expenditure and funding plans within the Capital Strategy, which is the same as lasts years limits.

The authorised limits are in line with 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	130,000	130,000	130,000
Non-financial investments	0	18,000	28,000	28,000
Total	**96,000**	**148,000**	**158,000**	**158,000**

In October 2018 the Government published the "Limit of Indebtedness (Revocation) Determination 2018". This removed the HRA debt cap which was £88,770k and 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

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11.8.20. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

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

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised

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

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

3.4 Investment and borrowing rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. *(Please note that Link has concerns over this approach, as the fundamental principle of local authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.)* It also introduced the following rates for borrowing for different types of capital expenditure: -

    - **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
    - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
    - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
    - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.

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 2021/22 treasury operations. The Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances both internally and externally.

The Council's investments in commercial property in the short to medium term has used internal borrowing as the Council has been able to utilise its cash balances as an alternative to external borrowing. 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 and the low investment rate returns.

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 B (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 limit is £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. a result of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the 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 to 31st March 2023)

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

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.

Creditworthiness.
Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on *actual* levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

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

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

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):

The 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	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

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

Negative investment rates

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

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

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

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	**2020/21**	**2021/22**	**2022/23**

Principal sums invested > 365 days	£30m	£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 B

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 8th January 2021

B (7). Treasury management scheme of delegation

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

APPENDIX B(1)

ECONOMIC BACKGROUND

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
  - The economy would recover to reach its pre-pandemic level in Q1 2022
  - The Bank also expected there to be excess demand in the economy by Q4 2022.
  - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.

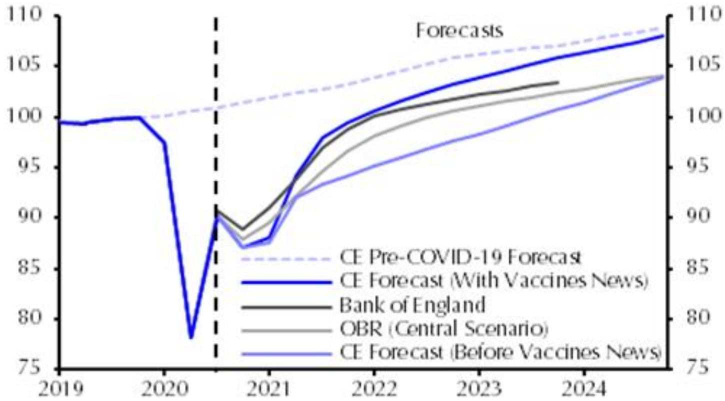
- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

- **December 2020 / January 2021**. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)



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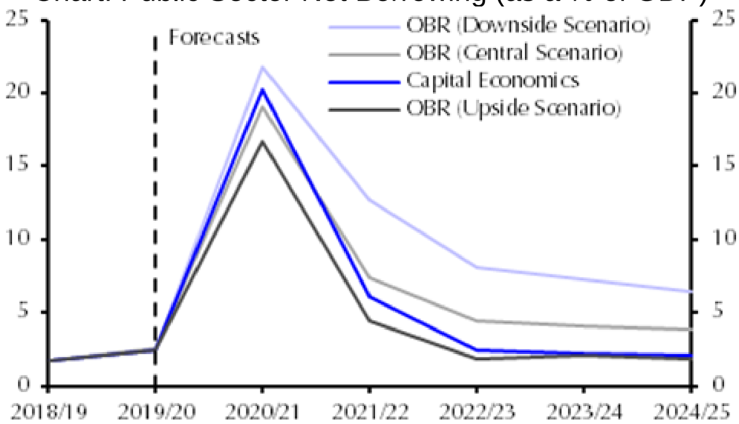
This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



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- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

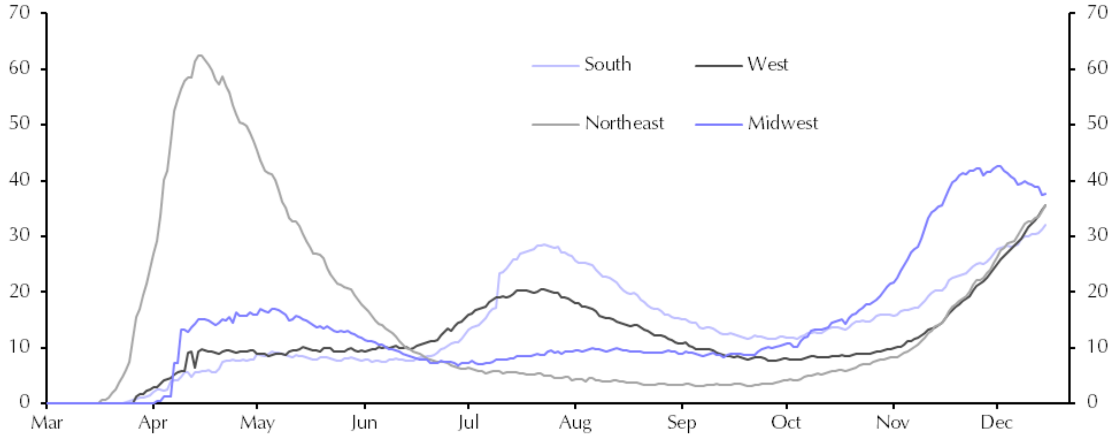
- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

- **US.** The result of **the November elections** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population



- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed’s meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

- **World growth.** World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

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

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

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

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:

$\underline{A - B}$

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 / colour band	**** 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.

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 @ 8/1/2021

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 8th January 2021 (for information only).

For illustrative purposes only the Council's investments as at 8th January 2021 are set out below. Please note that these investments alter on a daily basis.

Institution	**Colour**	**Amount invested £m**	**Transaction Limit £m**	**Maturity Date**	**MaxTime Limit**
SloughCouncil	N/A	2,000	5,000	01/04/2021	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	91 Day Notice	6 Months
HSBC Bank	Orange	12,000	12,000	31 day Notice	12 Months
Money Market Funds	AAA Rated	11,830	30,000 in total	1 Day	12 Months
Property Funds	N/A	5,000	5,000 in total	N/A	20 Years
TOTAL		**48,830**			

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 – 9th FEBRUARY 2021

Report of the Head of Strategic Support

Part A

ITEM 8 INTERNAL AUDIT PROGRESS REPORT 2020/21 TO 31st JANUARY 2021

Purpose of Report

The report summarises the progress against the 2020/21 Audit Plan, outlining key findings from final reports and any outstanding recommendations.

Recommendation

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

Reason

To ensure the Committee is kept informed of progress against the Internal Audit plan and work of Internal Audit.

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: Public Sector Internal Audit Standards

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 set out in the Appendix.

<u>Appendices</u>

Appendix 1 – INTERNAL AUDIT PROGRESS REPORT 2020/21 TO 31ST JANUARY 2021

INTERNAL AUDIT SHARED SERVICE

Charnwood Borough Council

Internal Audit Progress Report for 2020/21 to 31st January 2021

1.0 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 up to 31st January 2021.

2.0 Internal Audit Plan Update

2.1 The last update report to Audit Committee detailed progress up to 11th December 2020. Since then two final audit reports have been issued, three audits are at the report drafting stage and five audits are in progress. Appendix A shows the current position of the 2020/21 Audit Plan and the executive summaries for the two final reports issued are detailed in Appendix B:

- 20/21 Right to Buy – Reasonable Assurance
- 20/21 Payroll – Substantial Assurance

The audits did not identify any areas of significant weaknesses which I need to draw the Committee's attention to.

3.0 Outstanding Recommendations

3.1 Internal Audit monitor and follow up all critical, high and medium priority recommendations. All overdue Internal Audit recommendations are included in Appendix C for information. There are no areas of significant concern to highlight at this time and since the last Audit Committee good progress has been made on those recommendations which had been overdue.

4.0 Internal Audit Performance Indicators

4.1 Progress against the agreed Internal Audit performance indicators is included in Appendix D and has continued to improve since the last update report. When reviewing performance it should be noted that in agreement with SLT work did not start properly on the 20/21 plan until the middle of Q2 in order to allow services to focus on the business-critical functions during the Covid-19 response and Internal Audit resources were used to develop and deliver the assurance framework for the original Business Grants scheme.

2020/21 AUDIT PLAN AS AT 31st JANUARY 2021

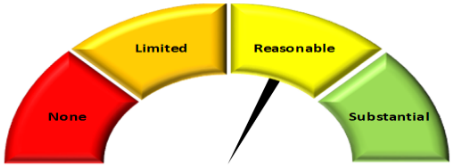
Audit Area (Report No.)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
Disabled Facilities Grant	Certification	3	6	Completed	Not applicable						Planned days exceeded due to completing audit remotely and new queries raised. Actions agreed to help make the process smoother next year.
Choice Based Lettings	Audit	8		Scheduled Q4							Currently in discussions about whether this audit will need to move to 21/22 audit plan due to service capacity to support the audit.
Fire Safety and Management	Audit	8	0.5	In progress							
Gas Servicing Contract Monitoring	Audit	8	0.5	In progress							
Asbestos Management	Audit	8	0.5	In progress							
Development Control	Audit	10	12	Final Report Issued	Substantial	-	-	-	1	1	
Tree Preservation Orders	Audit	6	11.5	Final Report Issued	Reasonable	-	-	1	-	-	Planned days exceeded as new area for auditor.

Benefits	Audit	8	1	Engagement planning							Put back as 19/20 grant certification work by external auditors has been delayed.
Council Tax	Audit	8	1	Engagement Planning							
NNDR	Audit	8	5	Report drafting							
Income Collection	Audit	8	2	In progress							
Creditors	Audit	8	1	In progress							
Debtors	Audit	8		Scheduled Q4							
Main Accounting System and Budgetary Control	Audit	8		Scheduled Q4							
Payroll	Audit	8	17	Final report issued	Substantial	-	-	1	1	-	Days exceeded due to level of testing which will be reviewed going forwards.
Rent Accounting	Audit	8		Engagement planning							
Treasury Management	Audit	8	5	Report drafting							
Right to Buy	Audit	10	7	Final report issued	Reasonable	-	3	1	2	-	
Office 365 Security and Remote Connections (1)	Audit	18	BDO Audit	Final report issued	Substantial	-	-	-	3	-	
Application Controls	Audit	9	BDO Audit	Report drafting							

Third Party Supplier Management	Audit	10	BDO Audit	Scheduled Q4							

SUMMARY OF FINAL AUDIT REPORTS ISSUED BETWEEN 11 DECEMBER 2020 AND 31 JANUARY 2021

<u>2020/21 RIGHT TO BUY</u>

REASONABLE ASSURANCE	
	A generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Key Findings

Areas of positive assurance identified during the audit:

- Communication with tenants is clear, accurate and complies with legislation.
- All income had been received as expected and relevantly accounted for.
- Properties are relevantly valued and discounted.
- Charges and restrictions are placed on properties at point of sale to ensure the authority are aware of any further sales within the 10-year period of the right to buy sale.

The main areas identified for improvement are:

- The updating and approval of policies and procedures.
- The introduction of robust fraud prevention measures.
- The evidencing of checks carried out to prevent fraud.

Three high, one medium and two low priority recommendations were made.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
A full review of all procedures is carried out to ensure that they are up to date and conform to both legislation, policy and local authority processes.	High	Agreed	Strategic Asset Manager	April 2021
A full review of the filing process is carried out and a consistent approach is introduced to ensure only relevant documentation is saved and correctly filed.	Low	Agreed – use of file reference number and standard set of templates and standard document names is in the process of being implemented.	Right to Buy Officer	February 2021
Template documentation is reviewed, and all personal information is deleted to ensure GDPR is being met.	Low	Agreed and implemented.	Right to Buy Officer	N/A
Reasons for timescales not being met are fully detailed.	Medium	Agreed – these will be included within the database.	Right to Buy Officer	January 2021
Officers should ensure that where information detailed within the application does not fully match that held by the authority further investigation is carried out and documented to ensure that only bone fide applications can proceed. Additionally, checks against the housing benefits system should be introduced to ensure any fraudulent claims are identified.	High	Agreed – an internal fraud checklist will be developed, and any issues will be where this will be documented.	Strategic Asset Manager & Right to Buy Officer	February 2021

2020/21 PAYROLL

SUBSTANTIAL ASSURANCE	
	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key Findings

Areas of positive assurance identified during the audit:

- There is adequate segregation of duties between the personnel functions, payroll processing and verification and payment process.
- New starters, leavers and other changes to employee pay data are appropriately authorised and correctly action.
- Gross pay was accurately calculated and complete and deductions were appropriately authorised and paid to 3rd parties.
- Variation to the payroll were appropriately authorised and paid.
- There are adequate arrangements in place to ensure overpayments are recovered.
- Regular reconciliations are undertaken between the payroll system, general ledger and bank account
- There are adequate controls in place to ensure the establishment is up to date and accurate.
- Individual user access to the system has been authorised, is at an appropriate level for the user and is monitored
- Amendments to standing data are reviewed for completeness and accuracy.

The main areas identified for improvement are:

- Procedure guides have not been recently reviewed and may not include any recent changes in processes, due to the pandemic and changes as the team move to an electronic filing system.
- The errors and warnings exception report parameter limits are considered high and the report is not independently reviewed.

One medium and on low priority recommendation was made.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
Procedure guides are reviewed and where appropriate brought up to date with current practices.	Low	Agreed as per recommendation. Changes to improvement process since moving to electronic filing are still being completed. Procedures will be reviewed after these changes are made.	Senior Payroll Officer	December 2021
Review the errors and warnings report for relevance and appropriate limits; this report should then be independently reviewed.	Medium	Establish what the current percentage parameters are set at within the system and where they are embedded in the system. Consider whether these are reasonable. The risk is mitigated further through the production and review of various other element differences reports. Management consider that there are adequate independent checks through processes that	Senior Payroll Officer	June 2021

		mitigate risk and therefore the independent check of the errors report is not required.		

RECOMMENDATIONS TRACKER – OVERDUE RECOMMENDATIONS AS AT 31st JANUARY 2021 (CRITICAL, HIGH AND MEDIUM PRIORITY) **APPENDIX C**

Page 103

Report		Recommendation		Priority	Officer Responsible	Target Date	Internal Audit Comments
2019/20 Audit Reports							
KFS02/19	Creditors	2	The production and independent review of an exception report in relation to amendments to standing data is put in place.	Medium	Head of Finance/Senior Payments Officer	Sep-20	In progress – awaiting consultancy time with supplier.
SSR04/19	RR - Materials Ordering and Stock Control	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	Principle Officer – Repairs and Maintenance	Oct-20	Partially implemented. Guidelines documented and awaiting evidence to confirm they are being followed.
		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	Repairs and Investment Manager	Oct-20	Partially implemented. Processes documented and awaiting evidence to confirm they are being followed.

		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	Principle Officer – Repairs and Maintenance	Oct-20	Partially implemented. Processes now in place and awaiting evidence to confirm they are being followed.
KF S0 3/1 9	Debtors	1.1	The Debt Recovery Policy is reviewed and updated to ensure consistency and accuracy.	Medium	Head of Financial Services	Dec-20	Review of the policy has been delayed to allow the returning Senior Income Assistant to input.

INTERNAL AUDIT PERFORMANCE INDICATORS

PERFORMANCE MEASURE	POSITION AS AT 31st JANUARY 2021	COMMENTS
Delivery of 2020/21 Audit Plan	45%	A further five audits are in progress and three are at the engagement planning stage.
Percentage of Client Satisfaction with the Internal Audit Service	100%	Based on three returns for 20/21.
Compliance with the Internal Audit Standards	Conforms	Inspection took place w/c 30th November 2020. Feedback provided which confirms that we conform with the Public Sector Internal Audit Standards with only 2 recommendations to address minor points. Final report will be presented to February 2021 Audit Committee.
Compliance testing of completed recommendations	100%	Follow up testing is up to date although some delays in implementation of recommendations due to Covid-19 however these are in progress.

INTERNAL AUDIT SHARED SERVICE

Charnwood Borough Council

2021/22 Internal Audit Annual Plan

1. INTRODUCTION

1.1 The Public Sector Internal Audit Standards require the Chief Audit Executive (the Audit Manager for this Council) to develop a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. This document sets out the background and the approach to producing the annual plan, with the 2021/22 annual plan attached at Appendix A.

2. BACKGROUND

2.1. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit play a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment and therefore contribute to the achievement of the organisation's objectives.

2.2. Internal Audit provide a combination of assurance and consulting/advisory activities. Assurance work involves assessing how well the systems are designed and working, with consulting or advisory activities available to help to improve those systems and processes where necessary. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

2.3. The Internal Audit Charter sets out the purpose, authority and responsibilities of Internal Audit. The Charter:

- establishes Internal Audit's position within the organisation;
- authorises access to records, personnel and physical properties relevant to the performance of engagements; and
- defines the scope of Internal Audit activities.

2.4 The Three Lines of Defence Model (below) is a valuable framework that explains Internal Audit's role in providing assurance that the management arrangements over governance, risk and internal control are adequate and effective.

Source: Chartered Institute of Internal Auditors

3. INTERNAL AUDIT PLAN

3.1. Overall Strategy

3.1.1 The key aim of the service is to provide an independent, objective assurance and advisory function which is designed to add value and improve the Council's operations. This supports Charnwood Borough Council in the achievement of its priorities and helps services to provide good value for money, as it brings a systematic disciplined approach to evaluating and improving the effectiveness of risk management and control and governance processes.

3.1.2 The Audit Manager has produced a risk-based annual audit plan for 2021/22. This is informed by a risk assessment which is based on a combination of:

- consulting with key stakeholders including the existing audit team and senior management;
- reviewing the strategic risk register and committee minutes;
- reviewing reports from external agencies (for example external audit) and legislative updates;
- factors such as changes in staffing, systems and processes; and
- the Audit Manager's professional judgement.

This approach enables the finite resources of the team to be focussed on areas where it can add value and conforms to the Public Sector Internal Audit Standards.

3.1.3 The outcomes from each audit engagement undertaken as part of the annual audit plan underpin the Audit Manager's annual opinion on the Council's internal control environment. This opinion feeds into the Council's Annual Governance Statement.

3.1.4 It should be noted that the Public Sector Internal Audit Standards state that

"The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls."

The Audit Manager will ensure that the audit plan is regularly reviewed and adjusted as necessary throughout 2021/22. In practice this may mean that audits are added to or removed from the plan, with details included in the quarterly progress reports.

3.2. Resources Available

3.2.1 The Audit Team who will deliver the 2021/22 annual audit plan at Charnwood Borough Council consists of the Audit Manager (0.32 FTE), Senior Auditor (0.66 FTE) and an Internal Auditor (0.8 FTE). Table 1 shows a calculation of the available audit days for 2021/22.

Table 1: Resources Available

Available Days	**356**
Team and Contract Management / Annual Opinion/ Annual Plan/Audit Committees/Progress Reports/External Audit	25
Corporate Meetings/General Admin/ Minutes Review/Regional Audit Groups	33
Available Audit Days	**298**

3.3. Internal Audit Annual Plan 2021/22

3.3.1 The proposed 2021/22 Annual Audit Plan is shown in Table 2 below and the detailed plan is shown in Appendix A. The Plan will be subject to ongoing review to ensure that it remains aligned with the Council's objectives and the risks identified by management and the audit team. Any changes will be reported to the Senior Leadership Team and the Audit Committee.

Table 2: 2021/22 Annual Audit Plan

Risk Based Audit Work 2021/22 (see Appendix A)	222
Completion of 2020/21 Outstanding Audits	28
Follow up reviews	16
Advisory – Adhoc	12
Public Sector Internal Audit Standards	4
Contingency	16
Total Audit Days	**298**

3.3.2 Charnwood BC currently have a contract with BDO to deliver 40 IT audit days per year from 2019/20 – 2021/22. The specific IT audits to be delivered during 2021/21 have been agreed in June 2020 as:

- IT Project Management - 12 days in Q1
- IT and Cloud Strategy - 10 days in Q2
- Data Governance and Operational Cloud Security - 15 days in Q3
- Recommendations follow up – 3 days

These audits will be reviewed in Q1 2021/22 to consider whether any changes are required in response to changing risks.

3.3.3 The timings shown within the Internal Audit Annual Plan are estimates based on time taken on previous similar audits and a high-level consideration of the scope and existing arrangements. As part of the set-up process for each audit engagement the scope of the audit will be agreed in detail and a more accurate budget for audit days will be set. A contingency has been included in the plan to allow for variances in planned audits days against actual and for ad-hoc or fraud investigations that may arise during the year. Due to the limited resources available, only **16** days have been included at this time. However, 40 days have been allocated in the plan to respond to any Covid-19 related assurance which may be required but cannot be specified at this time. The quarterly progress reports to Audit Committee will include a comparison of planned to actual days for each audit undertaken.

3.4 Limitations

3.4.1 The matters raised in the audit reports will only be those which come to our attention during internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care will be taken to ensure that the information contained in audit reports is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

APPENDIX A

2021/22 INTERNAL AUDIT ANNUAL PLAN

AUDIT AREA	TYPE	TIMING	COUNCIL PRIORITY AREA	RISK REGISTER (WHERE APPLICABLE)	CORPORATE SIGNIFICANCE	PLANNED AUDIT DAYS
STRATEGIC AND PRIVATE SECTOR HOUSING						
Disabled Facilities Grants	Certification	Q2	Theme 2		Medium	5
Acquisitions Policy	Audit	Q2	Theme 2		High	8
Choice Based Lettings (TBC)						TBC
LANDLORD SERVICES						
Electrical Safety	Audit	Q4	Theme 2		High	8
PLANNING AND REGENERATION						
Building Control (Joint Audit for NWLDC)	Audit	Q3/4	Themes 1,2		High	8
REGULATORY SERVICES						
DVLA Database Access	Advisory	Q1	Theme 1		High	3
CLEANSING AND OPEN SPACES						
Fleet Management	Audit	Q2	Theme 4		High	10
LEISURE AND CULTURE						
Markets booking facility	Advisory	Q1	Theme 3		Low	2
FINANCE AND CORPORATE SERVICES						
Key Financial Systems	TBC	Q3/4	Theme 4	SR4	High	50
Covid-19 related assurance work	TBC	As required	Theme 4	CVD-4	High	40
Risk Management	Audit	Q2/3	Theme 4		High	10
ASSETS						
Commercial Property Project	Audit	Q1	Theme 4	SR4	High	10
Asset Management	Audit	Q1	Theme 4	SR4	High	10
Commercial Lettings	Audit	Q2	Theme 4	SR4	High	10

New procurement arrangement	Advisory	Q2	Theme 4		High	3
CROSS CUTTING						
Services, Workspace and People Programme	Advisory	As required	Theme 4	SR4	High	15
National Fraud Initiative	Non audit	Q1/2	Theme 4	SR4	High	30
					TOTAL 'INHOUSE' DAYS	222
OUTSOURCED IT AUDITS*						
IT Project Management	Audit	Q1	Theme 4	SR1	High	12
IT and Cloud Strategy	Audit	Q2	Theme 4	SR1	High	10
Data Governance and Operational Cloud Security	Audit	Q3/4	Theme 4	SR2	High	15
					SUBTOTAL	37
					TOTAL	259

Key

Theme 1 - Caring for the Environment
Theme 2 - Healthy Communities
Theme 3 - A Thriving Economy
Theme 4 - Your Council

AUDIT COMMITTEE – 9th FEBRUARY 2021

Report of the Head of Strategic Support

Part A

ITEM 10 EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT

Purpose of Report

To present the findings, and associated action plan, of the External Quality Assessment of Internal Audit that was carried out in November 2020.

Recommendation

The Committee notes the findings from the assessment report and associated action plan.

Reason

To ensure the Committee is kept informed of the findings from external assessments of Internal Audit, in line with the Public Sector Internal Audit Standards.

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

Not applicable.

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: Public Sector Internal Audit Standards

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

1. **BACKGROUND**

1.1. Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and further revised on 1 April 2017. The purpose of the PSIAS is to improve the professionalism and standing of internal audit, to support good governance in local government and to add value. The standards require periodic self-assessments and an assessment by an external person every five years. Blaby, Charnwood and North West Leicestershire Councils' internal audit teams were last externally reviewed in June 2015 (Blaby and North West Leicestershire) and August 2016 (Charnwood) and a re-evaluation was therefore due. There was a slight delay in the review as Charnwood joined the partnership in April 2020 and the Audit Manager wanted to ensure that everyone was following a consistent approach.

1.2. The external quality assessment was procured in adherence to NWLDC contract procedure rules and the Public Sector Internal Audit Standards guidance in selecting an appropriately qualified assessor. The approach was discussed with the shared service partners with the assessor, Elizabeth Humphrey of Tilia Solutions Corporate Governance Consultancy, selected by the Audit Manager and the Head of Legal and Commercial Services.

2. **EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT**

2.1. The external quality assessment was carried out w/c 30th November 2020 and took the form of validation of a self-assessment completed by the Audit Manager. The validation was carried out through a process of interviews with key officers and Chairs of Audit Committees (interviewees selected by the assessor), and document review. The findings relate to each Council that is part of the Internal Audit Shared Service.

2.2. It is the assessor's opinion that internal audit at Blaby, Charnwood and North West Leicestershire Councils **conforms with the PSIAS**. She identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity, stating that the team takes a flexible, structured and focussed approach to their audit assignments. It identified two minor non-compliances with the PSIAS, neither of which were deemed to affect the activities of the team.

2.3. The final report is included in full at Appendix 1, with the action plan produced by the Audit Manager included at Appendix 2. Although only two minor recommendations and two suggestions were made in the final report, the assessor did make further minor suggestions informally to the Audit Manager, therefore they are all included in the action plan.

<u>Annexes</u>

Annex 1 – External Quality Assessment of Internal Audit Final Report

Annex 2 – External Quality Assessment of Internal Audit Action Plan

Tilia Solutions
CORPORATE GOVERNANCE CONSULTANCY

FINAL

Validation of a self-assessment of

Blaby, Charnwood and North West Leicestershire Councils' Internal Audit Team

08 December 2020

Elizabeth Humphrey CPFA

Validation of a self-assessment of Blaby, Charnwood and North West Leicestershire Councils' Internal Audit Team (December 2020)

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and further revised on 1 April 2017. The purpose of the PSIAS is to improve the professionalism and standing of internal audit, to support good governance in local government and to add value. The standards require periodic self-assessments and an assessment by an external person every five years. Blaby, Charnwood and North West Leicestershire Councils' internal audit teams were last externally reviewed in June 2015 (Blaby and North West Leicestershire) and August 2016 (Charnwood) and a re-evaluation was therefore due. There was a slight delay in the review as Charnwood joined the partnership in April 2020 and the Audit Manager (referred to as the CAE below) wanted to ensure that everyone was following a consistent approach. The previous reviews were all full evaluations; the CAE decided to have a validation of a self-assessment this time. The self-assessment also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

The validation was carried out through a process of interview and document review. A list of interviewees is included at appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed two audits and the CAE reviewed a further five, all carried out during the 2019/20 and 2020/21 financial years. I also checked key documents including the Charter and reports to the Audit Committee.

I agree with the CAE's assessment against the PSIAS that internal audit at Blaby, Charnwood and North Leicestershire Councils **conforms with the PSIAS** (see appendix 3 for details of the PSIAS ratings)**.** I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity and the team takes a flexible, structured and focussed approach to their audit assignments. I identified two minor non-compliances with the PSIAS, neither of which affects the activities of the team. In addition, the team could further develop its approach to audit planning, especially for individual audit assignments, by increasing the emphasis on the relevant council's corporate priorities, risks and auditee concerns. In this way, auditors can demonstrate the support that they give to Blaby, Charnwood and North Leicestershire Councils and their activities to deliver the councils' plans and improve services. I have made two recommendations (R) and two suggestions (S) to support this. The CAE will need to take action to implement these and an action plan is included as appendix 1.

Summary findings and recommendations

Standard	Conformance	Findings	Recommendations and suggestions	Rec no
Mission	Conforms	The mission is quoted in the Charter as required.		
Core principles of internal audit	Conforms	The team generally conforms to the core principles of internal audit. I have made some suggestions to develop this further.		
Code of Ethics	Conforms	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity. There was no overt reference to the *Seven Principles of Public Life* in audit guidance.	Refer to or quote the *Seven Principles of Public Life* in the Manual or elsewhere	R1
Attribute standards				
1000 Purpose, authority and responsibility	Conforms	The Charter includes all the required information apart from a definition of the nature of assurance services provided to the councils (standard 1000.A1).	Define the nature of assurance services in the Charter	R2
1100 Independence and objectivity	Conforms	Independence and objectivity underpin the work carried out by the team.		
1200 Proficiency and due professional care	Conforms	Audits are carefully planned, taking a risk-based approach, but this could be more overt for individual engagements.	Place risk at the front of all audit planning, especially in discussions with auditees	S1
1300 Quality assurance and improvement programme (QAIP)	Conforms	Internal audit meets the standards with regards to QAIP activities. However, they could be more integrated into audit activities and I have made some suggestions to achieve this.	Look for ways to integrate QAIP activities across the audit team and audit year, by carrying out rolling reviews or similar	S2

Standard	Conformance	Findings	Recommendations and suggestions	Rec no
Performance standards				
2000 Managing the internal audit activity	Conforms	Internal audit is well managed, with good planning, guidance and the expected reporting to senior management and the three councils' audit committees.		
2100 Nature of work	Conforms	Internal audit's work covers all the areas required by the PSIAS and LGAN. It could be improved by increasing the links to the councils' corporate priorities, so demonstrating the contribution that internal audit makes to delivery for each council and auditees.		
2200 Engagement planning	Conforms	Engagements are well planned, with a detailed engagement plan. Planning could be further improved with greater clarity about audit objectives and how the auditee and council will benefit from audit's work.		
2300 Performing the engagement	Conforms	The review showed that audits are well-performed and clearly documented.		
2400 Communicating the results	Conforms	Audit reports are clear and complete, and acknowledge satisfactory performance by giving an assurance level for each area examined.		
2500 Monitoring progress	Conforms	The follow-up process complies with the standards.		
2600 Communicating the acceptance of risks	Conforms	There was no evidence that risks have been left unmitigated following an audit, highlighting the priority given to audit findings.		

The Audit Manager has details of my conclusions, standard by standard.

Elizabeth Humphrey CPFA

Appendix 1: action plans

Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Refer to or quote the *Seven Principles of Public Life* in the Manual or elsewhere	Agreed. This will be included in the Internal Audit Charter as part of the next annual review in September 2021.	Audit Manager	September 2021
R2	Define the nature of assurance services in the Charter	Agreed. This will be included in the Internal Audit Charter as part of the next annual review in September 2021.	Audit Manager	September 2021

Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Place risk at the front of all audit planning, especially in discussions with auditees	Agreed.	Audit Team	January 2021
S2	Look for ways to integrate QAIP activities across the audit team and audit year, by carrying out rolling reviews or similar	Agreed. Will develop a rolling programme from 21/22.	Audit Manager	June 2021

Appendix 2: interviewees

Person	Position	Council
Bev Angell	Chair of Audit Committee	CBC
Kerry Beavis	Senior Auditor	
Richard Bennett	Head of Planning and Regeneration	CBC
Tracy Bingham	Head of Finance	NWLDC
Chris Brown	Community Safety Team Manager	NWLDC
Rose Carrier	Auditor	
Luke Clements	Waste Operations Manager	BDC
Cllr Stuart Gillard	Chair of Audit and Governance Committee	NWLDC
Diane Harris	Auditor	
Cllr Mark Jackson	Chair of Audit and Standards Committee	BDC
Simon Jackson	Director of Environmental and Corporate Services	CBC
Lisa Marron	Audit Manager	
Sarah Pennelli	Strategic Director	BDC
Adrian Ward	Head of Strategic Support	CBC
Elizabeth Warhurst	Head of Legal and Commercial Services	NWLDC

Appendix 3: conformance gradings

Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Non-conforming	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the audit committee.

EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT ACTION PLAN JANUARY 2021

No	Recommendation/suggestion in final report	Response	Responsible officer	Action date
R1	Refer to or quote the *Seven Principles of Public Life* in the Manual or elsewhere	Agreed. This will be included in the Internal Audit Charter as part of the next annual review in September 2021.	Audit Manager	September 2021
R2	Define the nature of assurance services in the Charter	Agreed. This will be included in the Internal Audit Charter as part of the next annual review in September 2021.	Audit Manager	September 2021
S1	Place risk at the front of all audit planning, especially in discussions with auditees	Agreed.	Audit Team	January 2021
S2	Look for ways to integrate QAIP activities across the audit team and audit year, by carrying out rolling reviews or similar	Agreed. Will develop a rolling programme from 21/22.	Audit Manager	June 2021

Minor suggestions during informal feedback	Response	Responsible officer	Action date
Include discussion items at team meetings on how we demonstrate: • Integrity • Objective and free from undue influence (independent)	Agreed. A standing item will be added to agenda to discuss/share experiences of team on audits focusing on integrity and objectivity.	Audit Team	Feb 2021

Suggest that limitations should be moved from front of engagement plan and report to an appendix and/or shortened significantly as this could be seen as sending a defensive message at the start.	Will review relevant paragraphs and consider whether/how we should move this.	Senior Auditor	Feb 2021
Include references to how Internal Audit work aligns with the strategies, objectives and risks of the organisation in the engagement plan.	Agreed. The annual audit plan is aligned therefore can add this to introduction section in engagement plan. This will be added to template to make sure it is included.	Senior Auditor	Feb 2021
In addition to including in the annual reports, add a statement to individual audit reports to say “audits carried out in consideration of requirements of International Standards for the Professional Practice of Internal Auditing” for example. Also all audit reports issued should include name of Chief Audit Executive so this could be combined.	Agreed. Other local authority reports to be reviewed to decide on preferred wording.	Senior Auditor	Feb 2021
Add reference to the sampling strategy followed to the Audit Manual.	Agreed. The sampling strategy has been added to the Manual.	Audit Manager	Completed
Reflect other sources of assurance to be relied on in the annual plan and annual report.	Agreed. Where other sources of assurance are used this is reflected in the annual report however will also reflect any intended reliance in the annual plan.	Audit Manager	Feb 2021
Need evidence of review/sign off of testing programmes if not prepared by Audit Manager/Senior Auditor.	Agreed. Prepared by and approved by to be added to relevant section on engagement programme/working papers.	Senior Auditor	Feb 2021

Review categories of recommendations - five categories may be a bit more than is needed. Simple H/M/L could be sufficient but explanations are clear.	Agreed. The categories will be streamlined to four – we will remove the advisory category as low and advisory are very similar and we do not follow up either formally.	Senior Auditor	Feb 2021

AUDIT COMMITTEE – 9TH FEBRUARY 2021

Report of the Head of Strategic Support

ITEM 10 WORK PROGRAMME

Purpose of Report

To enable the Committee to consider its Work Programme.

Actions Requested

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

2. That the Committee note the addition of the External Quality Assessment of Internal Audit item to this meeting as agreed by the Chair and Lead Officer.

3. That the Committee notes that its consideration of the 2021/22 External Audit Plan has been deferred to its meeting on 8th June 2021 to coincide with the end of the financial year.

4. That the Committee notes that the Risk Management (Risk Register), Risk Register and Council's Use of Regulation of Investigatory Powers Act (RIPA) items have been removed from the 9th February 2021 Agenda (as agreed by the Chair and Lead Officer). These matters were considered by the Committee at its meeting on 22nd December 2020 and in the short period since then nothing further needs reporting at this meeting.

Reason

1 – 4. 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: Ed Brown
Democratic Services Officer
(01509) 634502
Ed.brown@charnwood.gov.uk

ISSUE	MEETING
2020/21 Treasury Management Statement, Annual Investment Strategy and MRP Strategy	February 2021 Annually
2021/22 Internal Audit Plan **Internal Audit Business**	February 2021 Annually
2020/21 Annual Audit Letter	February 2021 Annually
External Audit Progress Report and Technical Update **External Audit Business**	February 2021 Quarterly
Capital Strategy 2021-22	February 2021 Annually
Internal Audit Plan – Progress	February 2021 Quarterly
Governance and risk aspect of Commercial Investment and performance review	February 2021 Quarterly
External Quality Assessment of Internal Audit	February 2021

2021/22 External Audit Plan **External Audit Business**	June 2021 Annually
2019/20 Annual Internal Audit Report **Internal Audit Business**	June 2021 Annually
2019/20 Review of the effectiveness of Internal Audit (Feedback from Panel) **Internal Audit Business**	June 2021 Annually
Internal Audit Charter **Internal Audit Business**	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
Internal Audit Plan – Progress	June 2021 Quarterly
Risk Management (Risk Register) **Internal Audit Business**	June 2021 Quarterly - detailed report every six months, exception report quarters in-between.
Council's Use of Regulation of Investigatory Powers Act (RIPA)	June 2021 Quarterly
External Audit Progress Report and Technical Update **External Audit Business**	June 2021 Quarterly
Governance and risk Aspect of Commercial Investment and performance review	June 2021 Quarterly

2020/21 Statement of Accounts	July 2021 (Accounts Meeting) Annually
2020/21 Annual Governance Statement and Review of the Code of Corporate Governance	July 2021 (Accounts Meeting) Annually
2020/21 Annual Governance Report External Audit Business	July 2021 (Accounts Meeting) Annually
Environmental Audits Outcomes – Progress update	September 2021
Annual IT Health Check (Code of Connection) ***Confidential Report***	September 2021 Annually
Internal Audit Plan – Progress	September 2021 Quarterly
Risk Management (Risk Register)	September 2021 Quarterly - detailed report every six months, exception report quarters in-between.
Council's Use of Regulation of Investigatory Powers Act (RIPA)	September 2021 Quarterly
External Audit Progress Report and Technical Update	September 2021

External Audit Business	Quarterly
Governance and risk Aspect of Commercial Investment and performance review	September 2021 Quarterly

Treasury Management Mid-Year Review	December 2021 Annually
Internal Audit Plan – Progress	December 2021 Quarterly
Risk Management (Risk Register)	December 2021 Quarterly - detailed report every six months, exception report quarters in-between.
Risk register COVID-19	December 2021 (if required)
Council's Use of Regulation of Investigatory Powers Act (RIPA)	December 2021 Quarterly
External Audit Progress Report and Technical Update **External Audit Business**	December 2021 Quarterly
Governance and risk Aspect of Commercial Investment and performance review	December 2021 Quarterly

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