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 Boldrin, S. Bradshaw, Hadji-Nikolaou, Gray, Parsons (Vice-Chair), Snartt and Ms Nellist (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 Committee Room 1, at the Council Offices, Southfields, Loughborough on Tuesday, 15th February 2022 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

7th February 2022

AGENDA

1. APOLOGIES

2. MINUTES FROM THE PREVIOUS MEETING 3 - 8

   The Committee is asked to confirm as a correct record the minutes of the meeting of the Committee held on 31st January 2022.

3. DISCLOSURES OF PERCUNIARY AND PERSONAL INTEREST

4. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions were submitted.

5. EXTERNAL AUDIT PROGRESS REPORT 9 - 23

A report of the External Auditors.

6. RISK MANAGEMENT (RISK REGISTER) UPDATE 24 - 62

A report of the Strategic Director for Environment and Corporate Services.

7. CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2022/23 63 - 129

A report of the Head of Finance and Property Services.

8. INTERNAL AUDIT PROGRESS REPORT Q3 2021-22 130 - 152

A report of the Head of Strategic Support.

9. 2022/23 INTERNAL AUDIT ANNUAL PLAN 153 - 162

A report of the Head of Strategic Support.

10. COUNCIL'S USE OF REGULATORY OF INVESTIGATORY POWERS ACT (RIPA) 163 - 165

A report of the Head of Strategic Support.

11. WORK PROGRAMME 166 - 169

A report of the Head of Strategic Support.

12. 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.

13. INVESTMENT PERFORMANCE REPORT – Q3 (OCTOBER TO DECEMBER) 2021/22

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

AUDIT COMMITTEE
31ST JANUARY 2022

PRESENT: The Chair (Jane Nellist)
The Vice Chair (Councillor Parsons)
Councillors Boldrin, S. Bradshaw, Hadji-Nikolaou and Snartt

External Auditor (Mazars)

Strategic Director
Head of Financial Services
Head of Strategic Support
Audit Manager
Democratic Support Officer (EB)

APOLOGIES: None

The Chair stated that the meeting would be recorded and the sound recording subsequently 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.

42. MINUTES FROM THE PREVIOUS MEETING

The minutes of the meeting of the Committee held on 16th November 2021 were confirmed as a correct record and signed.

43. DISCLOSURES OF PERCUNIARY AND PERSONAL INTEREST

No disclosures were made.

44. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

45. AGENDA VARIANCE

At the approval of the Chair the following item was brought forward: External Audit – Audit Completion Report – Charnwood Borough Council – Year Ended 31 March 2021

46. EXTERNAL AUDIT - AUDIT COMPLETION REPORT - CHARNWOOD BOROUGH COUNCIL - YEAR ENDED 31 MARCH 2021

A report of the External Auditor was submitted summarising the audit conclusions during the External Auditor's audit of the Council's financial statements for the year ended 31 March 2021 (item 7 on the agenda filed with these minutes).

Mark Surridge representing the External Auditors, the Strategic Director, the Head of Strategic Support and the Head of Financial Services, attended the meeting to assist with the consideration of the item.

The Committee was advised that:

- The External Auditors were prepared to sign and close the statements as there were no concerns. However, the Audit Certificate could not yet be issued as this was formally linked to a statute on closing the audit and the required information on the whole of government accounts, had not been received. This was an issue for all local authorities and not just Charnwood Borough Council.
- Regarding the Executive Summary on Audit Opinion and Value for Money, accounts were concluded to be fair, and this was an unqualified opinion without modification. The structure of the Value for Money assessment had changed in 2021 through the Code of Audit Practice. No significant weaknesses were found in arrangements.
- The authority's arrangements for financial sustainability, informed decision making and improving economy efficiency and effectiveness were deemed adequate, which was the best outcome possible.
- Regarding the work on the Financial Statements, accounts were deemed to be true and fair.
- Risk assessment was found to be in line with other local authorities. The risks identified were not unusual or out of the ordinary. All procedures had been carried out and concluded on.
- A small number of minor matters were identified regarding internal control recommendations. Officers would be worked with to close these out in the 2021/22 audit and none of these were a cause for concern.
- Differences in the Statement above the £55,000 threshold were reported upon and an item that extrapolated to £271,000 was identified in the report. It was suggested that this was due to the way the 52-week cycle was adjusted to match the financial year and it was requested that the Committee noted the acceptance of this.
- Work was not complete on the approach to Value for Money until the new-style annual auditors report was issued. However, no significant weaknesses had been identified. The code required the report to be issued within three months of signing the Audit Opinion, as such this was a matter of timing rather than unidentified risk.
- No adjusted material misstatements had been identified for 2020/21. The accounts submitted for audit was of good quality and the external auditors had been given the full support of officers.

Councillor Snartt thanked the Officers involved for their efforts in ensuring a good result for the authority.

The Chair remarked that it was good to see the full cooperation of management and to see progress made.

The Committee were advised in response to questions that:

- An issue was identified with rental receipts from commercial properties being accounted for on a cash rather than accruals basis. This was not deemed to be a material issue by the auditors but the issue would be revisited by them in subsequent years. The Committee were further informed that such issues had been identified in other authorities. The Head of Financial Services added that the issue might be explained by this being the first year of commercialisation of leases since as part of the year-end procedures it was important to ensure the statements were shown across four quarters. The added that this would be take forward to ensure that there would be no significant changes. The Committee were assured that if an error was found in a sample, it was applied across the accounts and as such there was no impact in terms of the General Fund. All work was complete on the issue and there were no further adjustments to the report.
- It was clarified that there was a difference in focus between external and internal audit and the two worked independently. It was further clarified that internal audit carried out full-systems audits based on recommendations. It was explained that external audit looked at whether accounts were true and fair whereas internal audit looked at reconciliations. External audit reflected on the work of the internal audit but did not rely on it.
- The external auditors did not sign off on the Leicestershire Local Government pension fund as it was audited by Grant Thornton. However, it was a materially accurate estimate. The Strategic Director added that the fund looked at underlying assets and that the fund accounts were basically correct. The Head of Financial Services added that three separate valuations on the pension fund had been taken into consideration.

The Chair drew the attention of the Committee to training slides that had been distributed to them that clarified the focusses of internal and external audit.

RESOLVED That the Committee noted the report including the acceptance of the difference in the statement of £271,000 as detailed above.

<u>Reason</u>

To acknowledge the Committee's consideration of this item and to note the reasons for the difference in the statement of £271,000.

The Audit Manager left the meeting during the consideration of this item.

47. <u>ANNUAL GOVERNANCE STATEMENT 2020/21 AND REVIEW OF THE CODE OF CORPORATE GOVERNANCE</u>

A report of the Head of Strategic Support was submitted setting out the Annual Governance Statement 2020/21 and the results of the annual review of the Council's Code of Corporate Governance (item 5 on the agenda filed with these minutes).

The Head of Strategic Support attended the meeting to assist with the discussion of the item.

The Committee were advised that the Annual Governance Statement summarised the Council's corporate governance arrangements and the review that was undertaken to confirm that they were operating efficiently and effectively along with additional recommendations for further actions required. It was reported that there were no additional actions required that were not already being carried out.

The Code of Corporate Governance detailed the corporate governance requirements. Five years previous, CIPFA and Solace provided guidance on how the Code of Corporate Governance should be produced and as such the Council had amended the Code of Corporate Governance to comply with this and arrangements had been kept up to date.

Councillor Snartt recommended that the reference to whistleblowing with regard to corruption and misuse of power within the Code of Corporate Governance be amended to include a specific reference to fraud.

In response to a question from Councillor Snartt, it was clarified that the officer code of conduct was part of the constitution and approved by Council. It followed the national code of conduct and therefore was seen as fit for purpose. Attention was also drawn to the disciplinary procedure for officers who broke the code of conduct.

In response to a question from Councillor S. Bradshaw, it was confirmed that the web page containing information on transparency could be found via a search engine.

The Chair drew attention to some inconsistencies including the role of the Audit Committee being different to that in the Committee's Terms of Reference. She further suggested that the report could include a table showing the different policies and which part of the Annual Governance Statement they covered. It was further suggested that Mazars could provide examples of good practice for the presentation of the Annual Governance Statement. Annual Governance Statement.

Councillor Snartt suggested that Freedom of Information Act requests could be included in the Annual Governance Statement.

The Chair suggested that new issues could be added more easily if it was presented as a table. She clarified that suggested changes for the presentation of Annual Governance Statement were for next year's Statement rather than the current one.

RESOLVED

1. That the Annual Governance Statement be approved.

2. That the updated Code of Corporate Governance be approved with an amendment to include a specific reference to fraud with regard to whistleblowing on corruption and misuse of power.

Reasons

1. So that the Annual Governance Statement can be finalised and signed by the Leader of the Council and the Chief Executive in accordance with the required timescales.
2. To ensure that the Code of Corporate Governance is kept up to date and complies with best practice.

48. STATEMENT OF ACCOUNTS 2020/21

A report of the Head of Financial Services was submitted setting out the Council's Statement of Accounts 2020/21 (item 6 on the agenda filed with these minutes).

The Head of Financial Services, the Strategic Director, the Head of Strategic Support and Mark Surridge representing the External Auditors attended the meeting to assist with the consideration of the item.

The Committee were advised that statutory accounts were in line with the CIPFA code of practice. Attention was drawn to the changes from 2019 within the report.

The Head of Financial Services thanked the accountancy team for supplying Mazars with the paper.

The Committee were advised in response to questions that:

- In theory, the deficit of the collection of business rates should cause nil impact as the Council should be compensated for business rates relief. The issue was complicated by the fact that Section 31 money should go into the fund to match the rates, however, it went directly into the reserves thus leaving a deficit in the collection fund. Central government advised about how the deficit should be spread and how the account should work as well as how the deficit should be closed. It was thought that the difference over the 3-5 year period should not be material. There was a one-off Covid-reserve set up for 7,346,000 to offset the deficit.
- In terms of year-end figures, compensation of commercial difference would be examined and it would be ensures that here were 12 months or four quarters in the accounts.
- A legal dispute with a contractor had been reviewed also the amount that the claim included had been reviewed. This was not considered to be a material liability from the Head of Service and the external auditors had been provided with emails and working papers to reflect this. The numbers and the name of the contractor had been omitted to protect the organisation. Figures would not be included in the accounts as they were in legal proceedings. The event was contingent on an act that had not yet taken place and as such there was insufficient evidence to put the numbers in the statement. If the dispute resulted in the Council having to make the payment then it would have to be put in the accounts, but it would not be a material amount from an accounts perspective.

- Budgets were monitored throughout for both Income and Expenditure and filter to Finance and Performance Scrutiny as well as being separately audited and externally audited. In terms of assurance they were a robust set of account that tallied to the Unit 4 System.
- There was a policy on Reinvestment Reserve. When these reserves reached a sufficient level they were no longer topped up. At times the Working Balance could be put into the Capital Reserve. Potentially circumstances could prevail to change the allocation of reserves.

The Chair raised issues with the lack of clarity in the narrative of the Statement of Accounts, highlighting that the narrative needed to explain issues to people who did not necessarily have a marketing background. It was suggested that Mazars could look into best practice and this could be taken into account for next year's Statement of Accounts.

RESOLVED

1. That the Statement of Accounts for the year ended 31st March 2021 be approved and that the Chair (as Presiding person) be authorised to sign the accounts on behalf of the Audit Committee.

2. That the Letter of Representation be approved for signature by the Chief Financial Officer.

Reasons

1 & 2. To comply with the Accounts and Audit (England) Regulations 2015.

NOTES:

1. No reference may be made to these minutes at the next meeting of Full Council 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.

3. The Audit Manager joined the meeting remotely.

External Audit Progress Report

Charnwood Borough Council

Audit Committee February 2022

mazars

1. Audit Progress
2. National publications

01

Section 01:

Audit Progress

Audit Progress

Purpose of this report

This report provides the Audit Committee's February 2022 meeting with:

- an update on progress in delivering the 2020/21 audit and assurance work;
- the 2021/22 audit planning process; and
- a summary of recent relevant reports and publications for your information (Section 2).

2020/21 Audit

The position on the key elements of the audit are as follows:

- Value for Money – as summarised in our Audit Completion Report to the Committee on 31/01/22 we have not identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our Value For Money Commentary is set to be included in our Auditor's Annual Report, which we anticipate issuing at the end of February and formal receipt by the Audit Committee at its next meeting.
- Other auditor responsibilities – we have not needed to take any action in relation to any of our broader auditor responsibilities.
- Assurance work – work on the Council's 2020/21 Pooling of Housing Capital Receipts Return and Housing Benefits Claim is on target for completion by the end of February 2022 deadline.

As explained in our Audit Completion Report we have not yet issued the Audit Certificate for 2020/21, which formally closes the audit. We expect the National Audit Office to confirm their requirements in February 2022 and will update the Committee at its meeting.

2021/22 Audit

At this stage we do not expect any significant changes to the audit risk profile and the overall audit approach, and we have not identified any significant changes to the financial reporting requirements under the 2021/22 CIPFA Code. The operating and financial environment for Councils continues though to be challenging and its important our audit plan is properly tailored to the risks and issues. We will hold further planning discussions with management in February 2022, including the normal wash up session on the current year's accounts audit to identify any opportunities for improvement or logistical issues. We will share our formal 2021/22 Audit Strategy Memorandum with the Audit Committee at its next meeting.

02

Section 02:

National publications

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1.	New Prudential and Treasury Management Codes	These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate.
2.	CIPFA launches value for money toolkit with the University of Oxford's GO Lab	Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation.
Department for Levelling Up, Housing and Communities		
3.	Consultation on changes to the capital framework: Minimum Revenue Provision	This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.
4.	Measures to improve local audit delays and accounts and audit timetable confirmed	DLUHC have announced a new package of measure to support the improved timeliness of local audit. These include additional funds and an extension of the deadline for publishing accounts.
National Audit Office (NAO)		
5.	The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management	The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall approach.
6.	The Local Government finance system in England: Overview and Challenges	This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.
7.	Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities	This provides a summary of the Department's spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year.
8.	Cyber and Information Security: Good practice guide	Audit committees should be scrutinising cyber security arrangements. This guidance complements government advice by setting out high-level questions and issues for audit committees to consider.
9.	Climate change risk: A good practice guide for Audit and Assurance Committees	This guide helps Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.
Financial Reporting Council		
10.	Inspection findings into the quality of major local body audits	The findings show an improvement on the previous year but the timeliness of reporting was a concern.

CIPFA

1. CIPFA publishes new Prudential and Treasury Management Codes, December 2021

CIPFA has published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) following a consultation period. These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. Guidance notes will follow shortly in the new year.

The updated **Prudential Code** includes the following as the focus of the substantive changes:

- The provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for yield as the primary purpose of the investment or represent an unnecessary risk to public funds.
- Proportionality has been included as an objective in the Prudential Code. New provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.

The main changes to the updated **Treasury Management Code** and the accompanying guidance for local authorities are as follows:

- Investment management practices and other recommendations relating to non-treasury investments are included within the Treasury Management Practices (TMPs) alongside existing TMPs.
- The guidance will recommend the introduction of the Liability Benchmark as a treasury management indicator for local government bodies (note that CIPFA has issued a toolkit to assist local authorities with the production of this indicator).
- Environmental, Social and Governance (ESG) risks are incorporated into TMP1 (Risk Management) rather than a separate TMP 13.
- The purpose and objective of each category of investments should be described within the Treasury Management Strategy.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-issues-new-prudential-and-treasury-management-codes

NATIONAL PUBLICATIONS
CIPFA (continued)

2. CIPFA launches value for money toolkit with the University of Oxford’s GO Lab, August 2021

CIPFA has partnered with the Government Outcomes Lab (GO Lab) from the University of Oxford's Blavatnik School of Government to develop the innovative GO Lab-CIPFA Value for Money (VfM) Toolkit.

Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds.

The toolkit provides public managers with a framework to help assess the economic validity of public programmes, while also serving as a self-assessment instrument. The toolkit promotes thinking about the longer-term effects of interventions, such as outcomes and impacts, during the design and planning stage of public sector programmes.

The GO Lab-CIPFA VfM toolkit is available for free download on the CIPFA website.

https://www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit

NATIONAL PUBLICATIONS

Department for Levelling Up, Housing and Communities

3. Consultation on changes to the capital framework: Minimum Revenue Provision, December 2021

This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities borrow and invest under the Prudential Framework (the Framework), which comprises legislation and 4 statutory codes that authorities must have regard to. Under this system, authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. The intent of the Framework is to make sure local decisions are prudent, affordable and sustainable.

The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the NAO's report Local Authority Investment in Commercial Property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision#excluding-specific-debt-from-mrp-determination

4. A new package of measures to support the improved timeliness of local audit

This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. The measures include:

- Steps to increase the number of auditors with skills to carry out the work;
- Additional funding to support increases in audit fees; and
- Extension of the audit deadlines to 30 November 2022 and 30 September for 2023 onwards.

https://www.gov.uk/guidance/measures-to-improve-local-audit-delays?utm_medium=email&utm_campaign=govuk-notifications&utm_source=81365e1a-e6b1-4c1b-bce1-b5ef8fafef6f&utm_content=daily#section-4-longer-term-measures-to-help-stabilise-the-market-and-address-long-term-supply-issues

National Audit Office

5. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

In November 2021

This report sets out the facts on:
• the government's approach to risk management and emergency planning (Part One);
• the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
• the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
• recent developments (Part Four).
The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/

NATIONAL PUBLICATIONS
National Audit Office

6. The Local Government finance system in England: Overview and Challenges, November 2021

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England. It covers:

- An introduction to local government funding
- Government policy and actions since 2010
- Some results or consequences of these changes.

The report headlines include the following in respect of the impact of the changes implemented by government on councils:

- Rising social care spending has squeezed funds available for non-social care services, yet rising spend has not prevented concerns about social care, and projections suggest continued cost and demand pressures.
- Local authorities have made substantial spending reductions in some services and sought to maximise revenue funding from other sources. Some local authorities have sought to maximise revenue available for services in ways that may reduce financial resilience. Commercial property investment strategies have increased some local authorities' exposure to risk. Local authorities now rely more on sources of income that are dependent on local economic conditions.
- A lack of short-term funding certainty hampers local authorities' ability to plan. Local authorities are also planning and delivering services amid medium-term financial uncertainty. Financial uncertainty does not support value-for-money decision-making.
- The governance mechanisms that support decision-making about financial sustainability are under strain. The financial resilience of the local government sector was being tested, even before the COVID-19 pandemic

The full report can be seen at this link: https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/

NATIONAL PUBLICATIONS
National Audit Office

7. Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities, November 2021

This provides a summary of the Department for Levelling Up, Housing and Communities' spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work.

The full report can be seen at this link: https://www.nao.org.uk/report/departmental-overview-2020-21-department-for-levelling-up-housing-and-communities/

8. Cyber and Information Security: Good practice guide, October 2021

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management;
- Capability needed to manage cyber security; and
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The guidance is based on NAO previous work and our detailed systems audits, which have identified a high incidence of access-control weaknesses. It also provides links to other government guidance and NAO resources.

The full report can be seen at this link: https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

NATIONAL PUBLICATIONS
National Audit Office

9. Climate change risk: A good practice guide for Audit and Assurance Committees, August 2021

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The full report can be seen at this link: https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/

Financial Reporting Council

10. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its **inspection findings into the quality of major local body audits** in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The full report can be seen at this link: https://www.frc.org.uk/news/october-2021/frc-publishes-latest-major-local-audit-quality-ins

Contact

Mazars

Director: Mark Surridge

Email: mark.surridge@mazars.co.uk

Manager: Leah Parsons

Email: leah.parsons@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

www.mazars.com

Follow us:

LinkedIn:
www.linkedin.com/company/Mazars

Twitter:
www.twitter.com/MazarsGroup

Facebook:
www.facebook.com/MazarsGroup

Instagram:
www.instagram.com/MazarsGroup

WeChat:
ID: Mazars

mazars

AUDIT COMMITTEE – 15th February 2022

Report of the Strategic Director for Environment and Corporate Services

Part A

ITEM 6 RISK MANAGEMENT (RISK REGISTER) UPDATE

Purpose of Report

The purpose of this report is to provide the Committee with details of the Strategic Risk Register produced for the period to 2022/23.

Recommendation

The Committee notes the report.

Reason

To ensure the Committee is kept informed of progress against the strategic risks that should they materialise would cause the Council to be unable to operate and/or provide key services leading to a significant adverse effect on public wellbeing.

Policy Justification and Previous Decisions

An internal audit was undertaken in August 2021 and the report was finalised in September 2021. In order to address the recommendations of the report it was agreed to review the Strategic Risk Register and associated Risk Management Framework.

Once presented to Audit Committee the documents will be presented to Cabinet on the 10 March 2022 for approval and then monitored through the Audit Committee on a quarterly basis.

Implementation Timetable including Future Decisions

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

Report Implications

The following implications have been identified for this report.

Financial Implications
None

Risk Management
There are no specific risks associated with this decision.

Background Papers:	Cabinet Report 11th February 2021 – Item 11 Audit Committee Report 16th November 2021
Officers to contact:	Simon Jackson Strategic Director for Environment and Corporate Services (01509) 634699 simon.jackson@charnwood.gov.uk Helen Gretton Organisational Development Manager (01509) 634556 helen.gretton@charnwood.gov.uk

Part B

Background

1. In accordance with the Committee's work programme the Committee receives quarterly monitoring reports in respect of the Council's risk management arrangements. The reports provide a detailed commentary against the risks included in the strategic risk register and identifies any changes to the risk rating and / updated treatmetns and controls. .

Development of the Strategic Risk Register

2. An audit of Corporate Risk Management was undertaken by the Internal Audit Partnership in August 2021, with the report published in September 2021. The audit covered the periods from July 2020 to June 2021.

3. The audit put forward a number of recommendations to improve the effectiveness of the process and improve the internal control of risk management.

4. In order to address the recommendations of the report it was agreed to review the Strategic Risk Register and associated Risk Management Framework.

5. Each risk has been reviewed and the description updated to meet the guidance outlined in the Risk Management Framework.

6. In addition 5 new Strategic Risks have been identified following a benchmarkng exercise with other local authorities and through considering best practice.

7. There are now 10 proposed Strategic Risks which will be presented to Cabinet for approval on 10 March 2022. The Risks are included in detail at Appendix A but are summarised below;

SR1	Business Continuity
SR2	Emergency Planning for Civil Contingencies
SR3	Finance
SR4	Staffing and workforce
SR5	Governance
SR6	Partnerships
SR7	Data sharing and security
SR8	Communication
SR9	Climate Change
SR10	Legislation and External Factors

9. The new risks are SR4, SR5, SR6 and SR9. SR10 has been expanded to reflect all legislative changes.

10. In reviewing the risk register it should be noted that the inherent risk shown in the first risk matrix is the risk that the Council would bear if ***no*** actions were

taken to mitigate the risk. In the vast majority of cases the Council is able to operate risk mitigation processes which results in the residual risk shown in the second risk matrix. It is this latter score which represents the current assessment of strategic risks faced by the Council.

11. The registers will continue to be monitored and reviewed by the Risk Management Group which includes all members of the Senior and Corporate Leadership Teams and meets quarterly.

<u>Appendices</u>

Appendix 1 – Revised Strategic Risk Register
Appendix 2 – Risk Management Framework

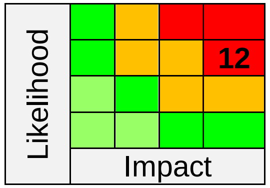
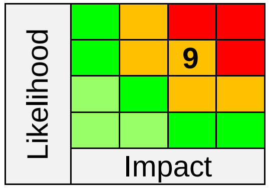
Strategic Risk Register
OVERVIEW

RISK		OWNER	INHERENT RISK			RESIDUAL RISK		
			Likelihood	Impact	Total	Likelihood	Impact	Total
SR1	Risk that there is a lack of adequate business continuity and recovery arrangements, leading to major internal and/or external disruption to services in the event of an incident (i.e. major ICT fail, fire etc), resulting in injury and/or loss of life and/or reputation	Strategic Director of Environment and Corporate Services	3	4	12	3	3	9
SR2	Risk that there is a lack of robust civil contingency arrangements established leading to a failure to respond appropriately to a major incident (e.g. flooding, terrorism etc) resulting in injury and/or loss of life	Chief Executive	4	4	16	3	3	9
SR3	Risk that there is a lack of external funding and/or income generated leading to a reduction in the financial resources available for service provision and/or to fund corporate objectives resulting in not being able to delivery services or being financially solvent	Strategic Director of Environment and Corporate Services	2	3	6	2	2	4
SR4	Risk that the Council does not attract suitable or capable staff or resources or there is a high sickness level or there are capacity issues from contractors and suppliers leading to a high number of vacancies or staff available resulting in poor service provision	Chief Executive	3	3	9	3	2	6
SR5	Risk that the Council does not follow its own governance procedures leading to failure to deliver services and/or value for money and/or it can be challenged through a legal	Chief Executive	2	3	6	2	2	4

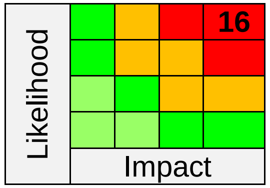
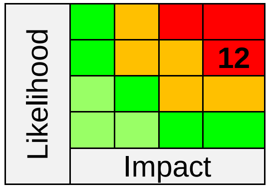
Strategic Risk Register

RISK		OWNER	INHERENT RISK			RESIDUAL RISK		
			Likelihood	Impact	Total	Likelihood	Impact	Total
	process leading to service delivery issues and/or reputation damage and/or criminal charges							
SR6	Risk that partnerships with key stakeholders are not developed or maintained leading to a failure to deliver shared outcomes and a lack of delivery to the public resulting in service delivery issues and/or reputational damage	Chief Executive	2	2	4	1	2	2
SR7	Risk that adequate data sharing and data security arrangements are not implemented leading to an increase in cyber-attacks resulting in service disruption or data loss or damage	Strategic Director of Environment and Corporate Services	3	4	12	2	3	6
SR8	Risk that the Council does not establish effective strategic communication arrangements leading in the public not being informed about Council activity resulting in reputational damage	Chief Executive	3	3	9	2	3	6
SR9	Risk that the Council does not lead by example and manage the ongoing impact of climate change leading to a lower than anticipated reduction in carbon output	Chief Executive	2	3	6	2	2	4
SR10	Risk that new legislation or external factors cause negative financial or reputational impact on the Council leading to a reduction in service provision (i.e., Environment Bill) resulting in service delivery issues and/or reputational damage	Chief Executive	3	4	12	3	3	9

Strategic Risk Register

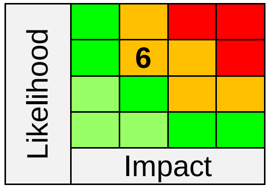
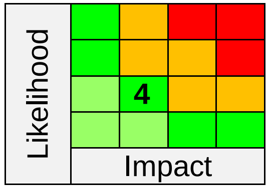
Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR1 Risk that there is a lack of adequate business continuity and recovery arrangements, leading to major internal and/or external disruption to services in the event of an incident (i.e. major ICT fail, fire etc), resulting in injury and/or loss of life and/or reputation	Strategic	• Inability to deliver key/critical services e.g.benefits, refuse collection, homelessness applications, emergency repairs. • Reduction in access channels available to residents / customers i.e. contact centre, customer services, telephony			Baseline
Current Treatments and Controls	• Business Continuity Planning • IT Disaster Recovery Plan • Website hosted externally • Off-site data back-up arrangements • Stand-by generator for ICS building • Cloud based telephony infrastructure • Contingency planning for failure of major contractor				
Risk Owner	Strategic Director of Environment and Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Link to work regarding concurrent incidents Link to workforce mental health		Responsible Officer: Head of Strategic Support	Target Date: Ongoing	

Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR2 Risk that there is a lack of robust civil contingency arrangements established leading to a failure to respond appropriately to a major incident (e.g. flooding, terrorism etc) resulting in injury and/or loss of life	Strategic	• Inability to respond to affected peoples' basic needs (food, shelter etc) • Adverse effect on the local economy • Major reputational damage and loss of public confidence • Extending the recovery phase longer than necessary • Dealing with the COVID pandemic will have a negative effect on the management of concurrent incidents			Baseline
Current Treatments and Controls	• Participation in the Local Resilience Partnership and Forum (LRP and LRF) – and awareness of guidance regarding concurrent incident with COVID • Appropriate emergency and incident planning in place • Regular testing and exercising of emergency plans • Training and awareness for relevant staff • 24/7 call-out arrangements for senior managers (SLT / CLT) • Participation in county-wide Events Safety Group (SAG) • Reviews periodically undertaken within current Treatments and Controls				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Taking the lead from the LRF regarding COVID response		Responsible Officer: Chier Executive		Target Date: End March 2022

Page 31

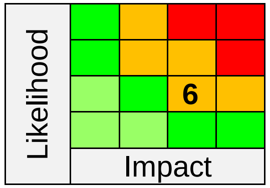
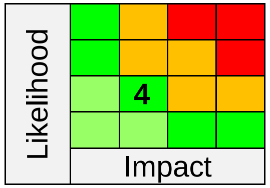
Strategic Risk Register

<table>
<tr><th>Risk Code and Title</th><th>Primary Risk Type</th><th>Potential Consequences</th><th>Inherent Risk Matrix</th><th>Residual (Current) Risk Matrix</th><th>Direction of Travel</th></tr>
<tr><td>SR3 Risk that there is a lack of external funding and/or income generated leading to a reduction in the financial resources available for service provision and/or to fund corporate objectives resulting in not being able to delivery services or being financially solvent</td><td>Strategic</td><td>• Inability to meet demand for services
• Inability to meet statutory duties
• Ceasing or reducing some services</td><td>
</td><td>
</td><td>Baseline</td></tr>
<tr><td>Current Treatments and Controls</td><td colspan="5">• Annual production and monitoring of Medium Term Financial Strategy (MTFS)
• Treasury Management Strategy
• Budget and revenue monitoring processes
• Production and monitoring of efficiency plan
• Maintenance of reserves at specified required levels
• Monitor, consider and respond to government proposals affecting budgets and/or income
• Due to the implications of the COVID pandemic the financial challenge and impact is greater
• Acknowledgemed of continued uncertainty and volatility in Local Government funding</td></tr>
<tr><td>Risk Owner</td><td colspan="5">Strategic Director of Environment and Corporate Services</td></tr>
<tr><td>Planned Future Actions and Responsible Officer(s).</td><td colspan="2"><u>Description</u>:</td><td colspan="2"><u>Responsible Officer</u>:</td><td><u>Target Date</u>:</td></tr>
</table>

Strategic Risk Register

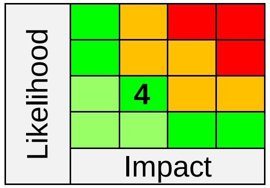
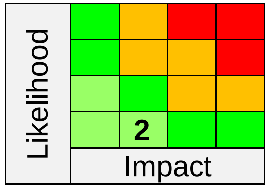
Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR4 Risk that the Council does not attract suitable or capable staff or resources or there is a high sickness level or there are capacity issues from contractors and suppliers leading to a high number of vacancies or staff available resulting in poor service provision	Strategic	• Inability to meet demand for services • Inability to meet statutory duties • Ceasing or reducing some services	Likelihood 9 Impact	Likelihood 6 Impact	Baseline
Current Treatments and Controls	• Benchmarking with other Districts • Seeking guidance from established organisations such as Jobs Go Public, East Midlands Councils, District Councils Network and Logal Government Association • Marketing the Council / Local Authority				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	<u>Description</u>: Internal review of Recruitment	<u>Responsible Officer</u>: Organisational Development Manager	<u>Target Date</u>: August 2022		

Strategic Risk Register

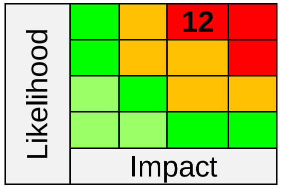
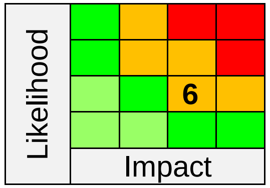
Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR5 – Risk that the Council does not follow its own governance procedures leading to failure to deliver services and/or value for money and/or it can be challenged through a legal process leading to service delivery issues and/or reputation damage and/or criminal charges	Strategic	• Financial damage • Reputational damage • Not complying with legislation			Baseline

Current Treatments and Controls	• Annual review of the constitution • Established governance arrangements for Risk Management, Performance Management, Projects and Programme Management		
Risk Owner	Chief Executive		
Planned Future Actions and Responsible Officer(s).	<u>Description</u>:	<u>Responsible Officer</u>:	<u>Target Date</u>:

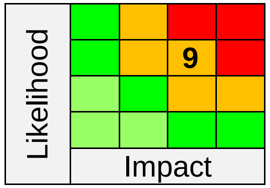
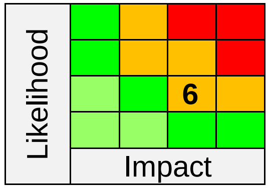
Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR6 – Risk that partnerships with key stakeholders are not developed or maintained leading to a failure to deliver shared outcomes and a lack of delivery to the public resulting in service delivery issues and/or reputational damage	Strategic	• Reputational Damage • Lack of joined up working • Damage to relationships with partners			Baseline
Current Treatments and Controls	• Joint working with key organisations with clearly identified terms of reference and joint outcomes • Up to date contact details within partner organisations				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description:	Responsible Officer:	Target Date:		

Strategic Risk Register

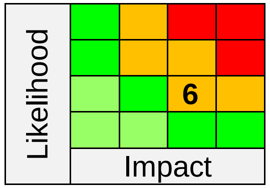
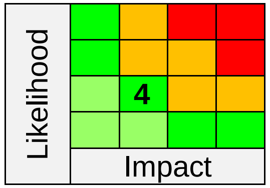
<table>
<tr><th>Risk Code and Title</th><th>Primary Risk Type</th><th>Potential Consequences</th><th>Inherent Risk Matrix</th><th>Residual (Current) Risk Matrix</th><th>Direction of Travel</th></tr>
<tr><td>SR7 – Risk that adequate data sharing and data security arrangements are not implemented leading to an increase in cyber-attacks resulting in service disruption or data loss or damage</td><td>Strategic</td><td>• Ineffective processes for sharing data with other agencies / authorities leading to data breaches
• Reputational damage and loss of public confidence
• Potentially significant fines
• Increased risk due to the operating processes and people possibly taking documents home</td><td>
</td><td>
</td><td>Baseline</td></tr>
<tr><td>Current Treatments and Controls</td><td colspan="5">• Information sharing agreements in place with key agencies and authorities
• Annual IT health checks including penetration testing
• Data Protection Officer in post and data protection training and awareness for staff and councillors
• Data Protection Impact Assessment form developed and circulated
• IT security policies in place
• Protective marking of emails
• Policies are reviewed on a regular basis
• Information Security Group established with CLT
• Checking the location of data storage post Brexit – EU / UK
• Cyber Security insurance procured</td></tr>
<tr><td>Risk Owner</td><td colspan="5">Strategic Director for Environment and Corporate Services</td></tr>
<tr><td>Planned Future Actions and Responsible Officer(s).</td><td colspan="2"><u>Description</u>:</td><td colspan="2"><u>Responsible Officer</u>:</td><td><u>Target Date</u>:</td></tr>
</table>

Strategic Risk Register

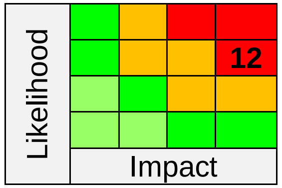
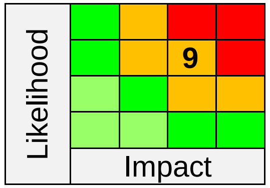
Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR8 – Risk that the Council does not establish effective strategic communication arrangements leading in the public not being informed about Council activity resulting in reputational damage	Strategic	• Reputational damage • Adverse media coverage • Damage to relationships with partners • Damage to staff morale • Competing demands due to the COVID pandemic			Baseline

Current Treatments and Controls	• Adequately staffed and experienced corporate communications team • Communications Strategy and Plan in place • Regular monitoring of all media sources • Continue to expand social media use and reach • 'Horizon scanning' for potential communication issues at each Corporate Leadership Team meeting • Joint working with LCC Comms		
Risk Owner	Chief Executive		
Planned Future Actions and Responsible Officer(s).	Description: Completion of the actions within the Communications Plan	Responsible Officer: Communications Manager	Target Date: End 2022/23

Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR9 – Risk that the Council does not lead by example and manage the ongoing impact of climate change leading to a lower than anticipated reduction in carbon output	Strategic	• Reputational damage • Environmental damage			Baseline
Current Treatments and Controls					
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	<u>Description</u>: Completion of the Climate Change Action Plan		<u>Responsible Officer</u>: Strategic Director - Commercial Development, Asset and Leisure		<u>Target Date</u>: End 2022/23

Strategic Risk Register

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR10 – Risk that new legislation or external factors cause negative financial or reputational impact on the Council leading to a reduction in service provision (i.e., Environment Bill) resulting in service delivery issues and/or reputational damage	Strategic	• Financial damage • Reputational damage • Not complying with legislation			Baseline
Current Treatments and Controls	• Monitoring legislation through Parliament • Liaise with other Districts • Reviewing and understand the financial implications • Brief Cabinet				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Monitor the Environment Bill through the various stages of parliament		Responsible Officer: Head of Cleansing and Open Spaces		Target Date: Ongoing

Charnwood

Risk Management Framework

November 2021

Owner	Organisational Development Manager
Status	Draft V0.1
Date Approved	TBD
Review Date	November 2023

03/02/2022

Contents

1. Introduction

1.1 Policy Statement

Charnwood Borough Council is committed to effective risk management and assurance and sees it as an essential tool from a compliance, good practice and delivery perspective and is integral to how we run our services.

An effective risk and assurance process provides a mechanism to inform the Annual Governance Statement and is part of the overall management of performance and delivery of required outputs.

To ensure risk management is effectively implemented, all Members and Officers should understand the approach to risk management and regard it as part of their responsibilities.

The management of risk should be firmly embedded in everyone's thinking, behaviours and actions.

1.2 Governance Framework

The purpose of the risk management framework is to define how risks and opportunities will be handled within Charnwood Borough Council.

The framework sets the context for the management of risks and defines how they will be identified, assessed, managed and reviewed. The frameworks also provides information on roles and responsibilities, processes and procedures.

The Council expects all of its employees, officers and Councillors to have a level of understanding of how risks and opportunities could affect the performance of the Council and to consider the management of those risks as part of their everyday activities.

The Council has developed a Strategic Risk Register which is reviewed by the Risk Management Group on a quarterly basis – this group comprises SLT and CLT. The Terms of Reference for this group can be found at **APPENDIX A**.

In addition, operational risks are included in the annual Service Delivery Plans as completed by CLT members.

Risk management is also embedded into the project management process and within the Councils procurement.

In addition a standard template exists for reports submitted to Cabinet, Committees and Full Council, this ensures that risks to the Council have been considered.

1.3 Definitions

Risk can be defined as the effect of uncertainty on objectives. An effect may be positive, negative or a deviation from the expected. Risk is often described by an event, a change in circumstances or a consequence.

Risk Management is a process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of success and reducing the likelihood of failure.

Controls are systematic measures implemented to mitigate risks and help an organisation achieve its objectives. Preventive controls are mechanisms established to discourage errors or irregularities from occurring while detective controls are designed to identify errors or irregularities that may have occurred.

Assurance is the means by which management and stakeholders gain confidence that the operation of controls within an organisation is both efficient and effective.

Risk Appetite is the amount of risk an organisation is prepared to accept, tolerate or be exposed to in order to achieve its objectives. This is factored into planning, decision making and delivery.

It is important for the risk appetite to be understood within the organisation so that the appropriate response is made to identified risks.

The Council's appetite for managing risk will be continually reviewed by SLT and CLT and reported through to the Audit Committee.

1.4 Approach

The Council will meet risk and assurance management objectives by undertaking the following actions:

- Providing and using a robust and systematic framework for identifying, managing and responding to strategic and operational risks.
- Providing and using a robust and systematic framework for identifying sources of assurance at different levels within and outside the organisation and the level of confidence that provides to management about the effectiveness of controls.
- Establishing clear roles, responsibilities and reporting lines for risk management and assurance.
- Demonstrating a commitment to risk management and assurance through the actions and behaviours of the CLT and in their decision making.
- Understanding our risk appetite and the level of risk we are prepared to accept in different activities and service areas.
- Reinforcing the value of risk management by integrating it within the Councils project management, performance management and procurement processes.
- Increasing the understanding and expertise in risk management through periodic training and sharing of good practice.

2. Risk Management Process

The Council has a four-step process for identifying, assessing, managing ad controlling risk. This is a continuous process.

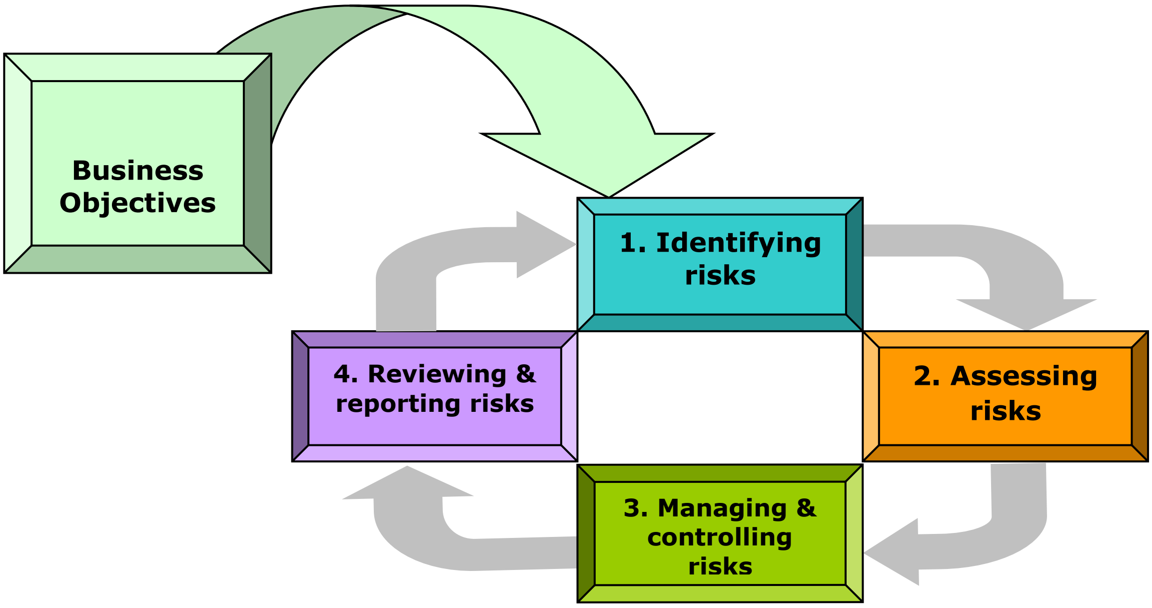


Figure 1: The four steps of the risk management cycle

2.1 Step 1: Identifying Risks

Our working definition of risk is

"Risk is something that may have an impact on the achievement of our objectives. This could be an opportunity as well as a threat."

Drivers of risk

The Council faces risks from both internal and external factors. Understanding this helps the Council to assess the level of influence it may have over the risk.

There are three parts to a risk – an **event** that has a **consequence** that leads to an **impact** on our objectives - and it can be measured by estimating the ***likelihood*** of the event happening and the ***impact*** it may have on our objectives if it does.

It also helps to think of risk being driven by two basic categories, **Strategic** and **Operational.**

At a strategic level, the focus is on identifying the key risks to successful achievements of the Council's overall objectives.

Operational risks are the risks that are most likely to affect the performance and delivery of business services.

Strategic and operational risks are not mutually exclusive and a risk may escalate from one to another. They can all be driven by either external or internal factors, or a combination of both.

In the risk identification stage The council is concerned with identifying events that can impact on the business objectives – **'what could happen?'** We need to look at both the positive and the negative effect and so should consider **'what could happen if we don't?'** This will help the council become more confident with risk taking. Insignificant risks can be ignored, significant risks can be planned for and the costs of taking action can be compared with the price to be paid if the adverse event occurs;

The sources of risk are identified at **APPENDIX B.**

The Council expresses it's risks in a statement which outlines the **Event, Consequence and Impact.** Further guidance is provided at **APPENDIX C.**

2.2 Step 2: Assessing Risks

The next step is to assess those risks in terms of the likelihood that they will occur and the impact if they do. This will give the council an **inherent risk** score that will help it to identify the most serious risks **before any controls have been applied**. Using that information the council can make decisions about the significance of those risks and how or whether it should address them.

The Council has agreed criteria for the levels of likelihood and impact for risks and criteria for opportunities, shown in tables 1 and 2 below.

The council then considers each of the identified risks and, using the criteria in the tables below, assesses the risk in terms of the **likelihood** that it will occur and **impact** on the Council if it should occur.

Details of the risk criteria can be found at **APPENDIX D.**

When the council has assessed both the risk likelihood and impact it then multiplies the likelihood score by the impact score which gives the **Inherent** risk score. This is the score the council uses to identify which risks are the most serious, allowing it to make decisions about the significance of those risks and how or whether they should be addressed.

Once the inherent risk score has been calculated, the risks need to be plotted on to a risk prioritisation matrix to show the level of the risk and to make decisions about the significance of those risks to the Council, and how they will be managed (see figure 2 below). The risk matrix that the Council uses is a 4 x 4 matrix.

Likelihood	Minor (1)	Significant (2)	Serious (3)	Major (4)
Very Likely (4)	4	8	12	16
Likely (3)	3	6	9	12
Unlikely (2)	2	4	6	8
Remote (1)	1	2	3	4

Impact

OVERALL RISK RATING	
High 12-16	These are significant risks which may have a serious impact on the Councils and its objectives if not managed
Moderate 6-9	These are risks which have the capability to cause some disruption to the council
Low 3-4	These risks need to be monitored to ensure that there are no changes in circumstances which would lead to the risk score changing
Very Low 1-2	

Figure 2: Risk Prioritisation Matrix & Risk Rating

Risks need to be managed within the Council's risk appetite. Where the inherent risk score exceeds the Council's risk appetite for the type of risk, mitigating controls and actions need to be applied to manage the risk down to an acceptable level.

The risk appetite sets out the level of risk deemed to be acceptable for the different risk types and the risk factors to consider for each risk type. Risks identified will often have risk factors that fall within more than one risk type, in these cases the risk type deemed to present the highest level of risk should be designated as the Primary Risk Type and this used to ascertain the risk appetite for the risk. Further details outlining the Council's Risk Appetite can be found at **APPENDIX E.**

2.3 Step 3: Managing & Controlling Risks

Once the risks have been identified and assessed for likelihood and impact and the risk appetite determined, there needs to be agreement on **who** will own the risk (and/or manage it) and **how** the risk/opportunity will be managed, controlled or exploited.

There are three questions which apply here:

1. Can we reduce the likelihood of occurrence?
2. Can we reduce the impact?
3. Can we change the consequences of the risk?

There are four common approaches to treating risk: '**the four T's'**

- Tolerating the Risk
- Treating the Risk
- Terminating the Risk
- Transferring the Risk

- Taking the Opportunity

These are explained in more detail below.

TOLERATING the risk. An organisation that recognises the value of risk management may accept that it might be appropriate to continue with an 'at risk' activity because it will open up greater opportunities for the future (but not before documenting the full reasoning behind that decision). It could be recognised that nothing can be done to mitigate a risk at a reasonable cost in terms of potential benefit, or the ability to do anything about a risk may be very limited.

Where the Council decides to set these levels of acceptance is known as its **risk appetite**, e.g. the Council may tolerate a risk where:

- The inherent risk score is within the risk appetite for the risk type
- The risk is effectively mitigated by internal controls, even if it is a high risk
- The risk cannot be mitigated cost effectively
- The risk opens up greater benefits

These risks must be monitored and contingency plans should be put in place in case the risks occur.

TREATING the risk. This is the most widely used approach. The purpose of treating a risk is to continue with the activity which gives rise to the risk, but to bring the risk to an acceptable level by taking action to control it in some way through either:

- **containment** actions (these lessen the likelihood or consequences of a risk and are applied before the risk materialises) or
- **contingency** actions (these are put into action after the risk has happened, thus reducing the impact. These **must** be pre-planned)

TERMINATING the risk – doing things differently and therefore removing the risk. This is particularly important in terms of project risk, but is often severely limited in terms of the strategic risks of an organisation.

TRANSFERRING some aspects of the risk to a third party, e.g. via insurance, or by paying a third party to take the risk in another way. This option is particularly good for mitigating financial risks, or risks to assets, e.g. transferring a risk may be considered to reduce the exposure of the Council, or because another organisation is more capable of effectively managing the risk. However, it is a limited option – very few strategic risks are insurable and only around 15 -20% of operational risks can be insured against.

When risk management is embedded, we become more confident risk takers and a fifth option can be used:

TAKING THE OPPORTUNITY: This is not an alternative to any of the above, rather it is an option to be considered whenever tolerating, treating, or transferring a risk. There are two aspects to this:

- The first is whether or not at the same time as mitigating a threat an opportunity arises where a positive impact can be exploited. For example, if a large sum of capital funding is to be put at risk in a major project, are the relevant controls judged to be good enough to justify increasing the sum of money at stake to gain even greater advantages?
- The second is whether or not circumstances arise which, whilst not generating threats, offer positive opportunities, e.g. lowering the cost of providing goods or services may free up resources that can be re-deployed.

Officers are encouraged to try to establish the cost of their planned actions. Some measures may be relatively easy to address, others might have to be implemented in phases. If a risk treatment has been identified outside the immediate area of influence of an officer, this should be referred to the Risk Management Group so that they can help to co-ordinate control measures between services.

2.4 Step 4: Recording & Reviewing Risks

Risks should be recorded on a risk register. The risk register template is appended at **APPENDIX F** to this framework.

The Council maintains two levels of risk register i.e., the Strategic Risk Register and Operational Risk Registers.

The Strategic Risk Register is monitored by the Risk Management Group and quarterly updates provided to the Audit Committee.

Operational Risk Registers are maintained and monitored at service level.

Circumstances and business priorities can, and do, change, and therefore risks, opportunities and their circumstances need to be regularly reviewed. Some risks will move down the priority rating, some may leave, and new risks will be identified.

As part of the Council's risk management framework, risk owners are required to review their risks at least quarterly. Any new very high risks, or the escalation of existing risks, should be reported to the Head of Service immediately.

Risk management should be included as an item on the agenda of all service management and team meetings.

The risk management framework (the four steps of risk management) is a continuous cycle designed not only to identify, assess, manage and review risks, assess but also to support your business objectives. You should review the risk identification process when drawing up your annual team service plan so that the risks and opportunities link directly to your business objectives. That way, risks and opportunities are directly linked to the achievement of the business objectives, which can then be prioritised using that information.

3. Roles & Responsibilities

The following representatives have responsibility for risk management

The Cabinet
• To approve the Council's Risk Management Strategy and Framework and Strategic Risk Register • To consider risk management implications when making decisions • To agree an appropriate response to the Council's highest risks • To receive an annual report on risk management

Audit Committee
• To maintain an independent oversight of risk management issues • To undertake reviews of specific areas of risk management activity or initiatives where required • To consider the effectiveness of the implementation of the risk management strategy • To review and approve the Council's Annual Governance Statement

The Officer Risk Champion (Organisational Development Manager)
• To be responsible for the oversight of the risk management activities of the Council • To provide the Cabinet and Audit Committee with assurance that the Council's corporate business risks are being actively and appropriately managed.

Senior Leadership Team
• To oversee the corporate approach to risk management • To identify, assess and capture improved performance and value for money through risk and opportunity management • To ensure that a robust framework is in place to identify, monitor and manage the Council's strategic risks and opportunities • To demonstrate commitment to the embedding of risk management across the organisation

Risk Management Group (Corporate Leadership Team)
• To raise the awareness of risk management issues and promote a risk management culture across the organisation • To create a forum for discussion and a focal point for risk management • To assess strategic risks and opportunities identified by the Authority • To review and keep up to date the strategic risk register • To ensure that the most appropriate and cost-effective measures are adopted to avoid, minimise and control those risks in accordance with ‘Best Value’ principles • To develop good risk management practices within the Council • To encourage the development of contingency plans

Heads of Service
• To identify and assess new risks and opportunities • To include Risk Management as an Agenda item at team meetings • To maintain the Council’s operational risk registers in relation to their areas of responsibility, identifying and reporting upwards any significant risk management issues affecting their service area • To ensure compliance with corporate and service risk management standards • To ensure that all service deliverers (employees, volunteers, contractors and partners) are made aware of their responsibility for risk management and the mechanisms for feeding concerns into the Council’s risk management process • To ensure that an effective framework is in place to manage risks faced by the service • To identify and analyse risks for impact and likelihood and introduce risk control measures • To identify initiatives that could reduce the impact and/or likelihood of risks occurring • To identify initiatives that could increase the likelihood of an opportunity being realised • To ensure that risk register entries and controls are accurate and up to date • To monitor the progress of planned actions on a quarterly basis to ensure that aims are achieved • To report quarterly to their Director on the progress of risk management action plans and any new risks identified • To communicate the risk process to all staff and ensure they are aware of their responsibilities

Team Risk Owners (if other than Head of Service)
• To have responsibility for the management of risk within their area, including the implementation of action plans • To include Risk Management as an Agenda item at team meetings • To review each risk at least quarterly and report to the Head of Service and/or Director, identifying any changes in circumstances or factors around the risk • To communicate the risk process to staff in their section and to ensure that they are aware of their responsibilities

Organisational Development Manager and Insurance Officer
• To provide facilitation, training and support to promote an embedded proactive risk management culture throughout the Council • To provide facilitation, training and support to Members • To assist services in identifying, analysing and controlling the risks that they encounter • To ensure that risk management records and procedures are properly maintained and that clear audit trails exist in order to ensure openness and accountability • To provide risk management advice & support to Strategic Directors, Heads of Service, risk owners and service teams • To develop means of best practice in risk management by reference to risk management standards and comparisons with peer authorities • To address internal audit recommendations • To keep SMT and the Head of Strategic Support fully briefed on the Council's top risks and any other risk issues as appropriate • To liaise with internal and external audit / Insurers / Health & Safety / Emergency Planning • To liaise with external consultants and risk management organisations to promote and maintain best practice within the Council • To ensure the timely purchase of adequate insurance for the transfer of risk

All Employees
• Within their given area of responsibility and work, to have an understanding of risks and regard their management as part of their everyday activities, including the identification and reporting of risks and opportunities which could affect the Council • To carry out or assist with risk assessments for their areas of work

- To maintain an awareness of risk and feed this into the formal management and reporting processes
- To support and participate in risk management activities

Internal Audit
• To independently assess the Council's risk management arrangements • To review the content and scope of the risk registers • To review the adequacy of procedures by departments to assess, review and respond to risks • To review the effectiveness of the Council's system of internal control • To consider the content of the risk registers when preparing the Annual Audit Plan

APPENDIX A
RISK MANAGEMENT GROUP TERMS OF REFERENCE

CHARNWOOD BOROUGH COUNCIL

RISK MANAGEMENT GROUP

TERMS OF REFERENCE

Purpose
The Risk Management Group (RMG) oversees the management of risk across the organisation and has responsibility for ensuring that adequate sources of assurance are in place.

The RMG will meet on a quarterly basis and instigate actions, allocate resources and communicate important messages to service areas as necessary.

Objectives
The key objectives of the RMG are;

- Coordinating risk management throughout the authority
- Keeping the strategic risk register and risk management framework under review
- Identifying strategic and operational practices that present significant risk to the authority
- Identifying emerging risks
- Making proposals for reducing the likelihood and / or impact of risks
- Coordinating and prioritising risk control measures
- Advising on the use of the risk management reserve to support funding necessary for initiatives that will reduce risk (e.g. vandalism, arson, theft, damage to property, personal injury to employees, visitors and persons under the care of the authority)
- Promoting good risk management practice by liaising with employees and identifying training needs
- Ensuring effective business continuity arrangements are in place, including those of critical suppliers
- Ensuring effective emergency planning arrangements are in place
- Participating in the work of the Local Resilience Forum (LRF) and working closely with other organisations as appropriate
- Monitoring the number and type of insurance claims being received by the authority

Membership
Members of the RMG will include:

Name	Position	Role on Capital Projects Board
Rob Mitchell	Chief Executive	Chair
Eileen Mallon	Strategic Director - Community, Planning and Housing	Member
Simon Jackson	Strategic Director – Environment and Corporate Services	Member
Justin Henry	Strategic Director – Commercial Development, Asset and Leisure	Member
Sylvia Wright	Head of Leisure and Culture	Member
Lesley Tansey	Head of Finance	Member

Name	Position	Role on Capital Projects Board
Karey Barnshaw	Head of Customer Experience	Member
Matt Bradford	Head of Environmental Services	Member
Adrian Ward	Head of Strategic Support	Member
Peter Oliver	Head of Landlord Services	Member
Richard Bennett	Head of Planning and Regeneration	Member
Alison Simmons	Head of Strategic and Private Sector Housing	Member
Alan Twells	Head of Regulatory Services	Member
Julie Robinson	Head of Neighbourhood Services	Member

Governance
The RMG will meet quarterly as part of the regular CLT sessions.

The Group has a standard agenda covering Strategic Risk Register, Health and Safety and Insurance

Where appropriate reports on progress will be submitted to the Senior Leadership Team and Corporate Leadership Team on a regular basis.

The RMG is supported by Helen Gretton, Organisational Development Manager, Tony O'Brien, Health and Safety Manager and Sue Leather, Insurance Officer.

APPENDIX B
SOURCES OF RISK

	Sources of Risk	Risk Considerations
STRATEGIC RISKS	Political	Changes in Government policy National or local political pressures
	Economic	Economic downturn – prosperity of local businesses/ local communities Ability to deliver value for money
	Social	Demographic changes Crime and disorder, health inequalities, safeguarding issues
	Technology	Ability to respond to changing demands Obsolescence of existing technology
	Legislation	Changes in UK or EU legislation Legal challenges or judicial reviews
	Environment	Climate change Recycling, green issues, energy efficiency, land use and green belt issues

	Sources of Risk	Risk Considerations
CORPROATE RISKS	Finance	Budgetary pressures System/ procedure weaknesses
	People	Loss of key staff, recruitment, retention & development issues Communication and consultation during transformation
	Partnerships and contracts	Delivery of services to agreed cost and specification Clarity of roles and relationships
	Physical assets	Safety and security of land, buildings and equipment Control of IT hardware
	Process	Poor quality/ reduced service delivery Confidentiality, integrity and availability of information
	Resilience	Emergency preparedness/ business continuity

APPENDIX C
HOW TO WRITE RISKS

Expressing risks as a statement is often harder than it first seems. It may require re-thinking some basic assumptions about a situation and re-evaluating the elements that are most important.

For example, “lack of staff” is an issue and is not in itself a complete description. Try to externalise the issue and develop it into a risk that expresses how the issue will impact upon achievement of the Council’s strategic objectives.

Try to include those three parts to your risk: **Event – Consequence – Impact.**
This will ensure that focus, and therefore action is placed on the event.

Typical risk phrasing could be

loss of…

failure of…..

failure to… leads to …… resulting in……

lack of…

partnership with…

development of…

For example, Environmental Services may identify the failure of the waste collection service, e.g. due to bad weather conditions, as a risk. They develop this around **event, consequence, impact** to:

“Failure of the waste collection service due to inclement weather (the event) could lead to unacceptable delays in collecting refuse (the consequence), resulting in public health issues and loss of reputation.

APPENDIX D
RISK CRITERIA

Table 1: LIKELIHOOD - Description and definitions

Rating	Score	Indicative Guidelines	
		Threat	Opportunity
Very Likely	4	• Regular occurrence • Circumstances frequently encountered	Favourable outcome is likely to be achieved in short term (within 1 year)
Likely	3	• Likely to happen at some point in the next 3 years • Circumstances occasionally encountered.	Reasonable prospects of favourable outcome in short term (within 1 year)
Unlikely	2	• Only likely to happen once every 3 or more years • Circumstances rarely encountered	Some chance of favourable outcome in medium term (up to 3 years)
Remote	1	• Has never happened before • Circumstance never encountered.	Little chance of a favourable outcome in short or medium term (up to 3 years).

Table 2: IMPACT - Description and definitions

Rating	Score	Indicative Guidelines	
		Threat	Opportunity
Major	4	• Major loss of service for more than 5 days. • Severe disruption to the Council and its customers affecting the whole council. • Major financial loss > £1,000,000 • Loss of life, intervention by HSE. • National news coverage • Likely successful judicial review or legal challenge of Council decision. • Major environmental damage.	• Major improvement in service delivery. • Income generation/savings >£1,000,000 • Positive national press, national award or recognition. • Noticeable widespread environmental improvements.

Rating	Score	Indicative Guidelines	
		Threat	Opportunity
Serious	3	• Loss of service for 3 to 5 days. • Serious disruption, ability to service customers affected across several service areas of the Council. • Serious financial loss £100,000 - £999,999 • Extensive/multiple injuries, intervention by HSE • Local adverse news item/professional press item • Likely judicial review or legal challenge of service specific decision. • Serious damage to local environmental.	• Noticeable improvement to customers in service delivery, quality and cost. • Income generation/savings > £100,000. • Sustained positive recognition and support from local press. • Noticeable improvement to local environment.
Significant	2	• Loss of service for 1 – 3 days • Noticeable disruption, some customers would be affected across a service area of the Council • High financial loss £10,000 - £100,000 • Severe injury to an individual/ several people • Local news/minor professional press item • Moderate damage to local environment	• Slight improvement in internal business processes. No noticeable change in service delivery or customer service. • Income generation/savings> £10,000 • Positive support from local press • Minor improvement to local environment
Minor	1	• Brief disruption to service less than 1 day – minor or no loss of customer service. • Low financial loss > £10,000 • Minor/no injuries. • Minimal news/press impact.	• No noticeable improvement to service delivery or internal business processes. • Income generation/savings up to £10,000 • No press coverage

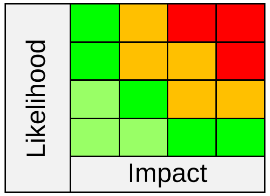
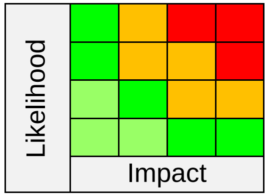
Rating	Score	Indicative Guidelines	
		Threat	Opportunity
		• Affects single team only. • Minor/no damage to local environment.	• Insignificant/no environmental improvements

APPENDIX E
RISK APPETITE

Risk Type & Definition	Risk Factors	Risk Appetite
Strategic – Achievement of strategic priorities.	**External Factors** • Political • Economic • Social • Partners **Strategy** • Digital Strategy • Local Plan • Communications Strategy • Commercial Strategy **Governance** • Council Structure • Council Performance • Risk Appetite **Reputational Damage** • Media coverage	**Moderate** - to reflect the Council's approach in developing the local economy and creating attractive and safe environment. In meeting the objectives relating to these elements of the Corporate Plan it is important to consider innovative service delivery and hence some risk is acceptable.
Delivery – day to day operation of Council services	**Corporate Plan** • Delivery of objectives • Delivery of business plan objectives. **Service Delivery** • Delivery of service/ team objectives. **Project Management** • Delivery of project objectives **Staff** • Recruitment & Retention • Training • Key Personnel **IT** • Network Infrastructure • Business Applications • IT Security	**Moderate** - to reflect the Council's approach in developing the local economy and creating an attractive and safe environment. In meeting the objectives in the Corporate Plan, it is important to consider innovative service delivery and hence some risk is acceptable.

Risk Type & Definition	Risk Factors	Risk Appetite
	Resilience • Business Continuity Planning • Emergency Planning **External** 3rd party performance **Reputational Damage** • Media coverage • Complaints	
Financial - financial impact or loss	**Revenues** • Collection Rates • Debt Recovery • Commercial income generation **Treasury Management** • Debt Management • Investment Strategy **Finance** • Statutory Accounts • Budget Monitoring • Income Generation • Grants and Funding • Capital Spending	**Low** –long term financial stability is an important factor to the Council in continuing to provide services and meeting Corporate Plan objectives. Some judiciously managed risk will be accepted, but the long term future of the authority will not be jeopardised.
Compliance – breaches to law or regulation.	• Data Protection • Health & Safety • Public Health • Government Regulations • Constitution • Regulatory Bodies • Planning Inspectorate • Procurement • Housing	**Very Low –** as a Local Authority we lead by example and should demonstrate a high level of compliance**.**

APPENDIX F
RISK REGISTER TEMPLATE

<table>
<tr><th>Risk Code and Title</th><th>Primary Risk Type</th><th>Potential Consequences</th><th colspan="2">Inherent Risk Matrix</th><th>Residual (Current) Risk Matrix</th><th>Direction of Travel</th></tr>
<tr><td></td><td>Strategic/ Delivery/ Financial/ Compliance</td><td></td><td colspan="2">
</td><td>
</td><td></td></tr>
<tr><td>Current Treatments and Controls</td><td colspan="6"></td></tr>
<tr><td>Planned Future Actions and Responsible Officer(s).</td><td colspan="3"><u>Description</u>:</td><td colspan="2"><u>Responsible Officer</u>:</td><td><u>Target Date</u>:</td></tr>
</table>

Page 62

AUDIT COMMITTEE – 15th FEBRUARY 2022

Report of the Head of Finance and Property Services

ITEM 7 CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2022/23

Purpose of Report

The purpose of this report is to provide the Committee with an opportunity to scrutinise the proposed Capital Strategy for 2022/23 and associated recommendations that are being recommended by Cabinet to full Council for approval.

Recommendation

That the Committee considers the proposed Capital Strategy (including the Treasury Management Strategy) for 2022/23, as attached in the Cabinet report dated 10th February 2022, to determine whether there are any issues it wishes to draw to the attention of full Council when they consider the relevant recommendations from Cabinet (recommendations 1 to 3 within the Cabinet report).

Reason

To ensure that the proposed documents are appropriately scrutinised.

Policy Justification and Previous Decisions

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

Implementation Timetable including Future Decisions

The recommendations of Cabinet will be considered at the full Council meeting on 21st February 2022.

Report Implications

The following implications have been identified for this report.

Financial Implications

As set out in the Cabinet report.

Risk Management

As set out in the Cabinet report.

Officer to contact: Adrian Ward
(01509) 634573
adrian.ward@charnwood.gov.uk

CABINET – 10TH FEBRUARY 2022

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 8 CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2022/23

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 and proposed amendments to the Constitution 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 2022 - 2025) 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 2022.

This report is available for the consideration of the Scrutiny Commission on 7 February 2022.

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 15 February 2022.

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: Treasury Management mid-year update – Cabinet Report 11 November 2021

.

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

Background

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

6. The Council created a commercial property portfolio capital, spending £22.5m in the 2020/21 financial year. This portfolio is performing well and in other circumstances the Council may have considered expanding this. However, new regulations were introduced in 2020 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). In 2021 this was followed by the publication of an updated Prudential Code that effectively prevents local authorities acquiring such assets where funded by borrowing.

7. The current Capital Plan includes as yet unused amounts for Regeneration (£15m) and development of the Enterprise Zone (£13m); the Capital Strategy assumes that these unused amounts will be carried forward to allow availability in future years.

8. Other than a £2m loan taken out in 1984 (and due for repayment in 2024) the Council has not been required to externalise borrowing within the General Fund. External borrowing would be required if the full £28m for Regeneration and Enterprise Zone development was invested; however, the Council has significant scope for additional 'internal' borrowing and in practice it is unlikely that external borrowing will be required in the next financial year.

9. In broad terms there are no changes in strategic approach proposed within the 2022/23 Capital Strategy. This does not mean that the Council cannot react to changes in circumstances or opportunities arising as the country (hopefully) moves out of the COVID-19 pandemic, but any changes in approach, and any associated amendments to the Capital Plan will need approval from Council (or as otherwise required though governance processes).

10. Overall, there are no significant changes and matters of note within the the proposed 2022/23 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

Charnwood Borough Council

Capital Strategy

2022 – 2023

Foreword

This latest Capital Strategy sets out 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.

The financial and economic outlook facing the Council is highly uncertain (see the latest version of the Medium Term Financial Strategy for more detail) and much of our focus will be to ensure that the Council remains on a sustainable financial footing. With this in mind the new Capital Plan (2022 – 2025) has a focus on the upkeep of the Borough and maintenance of our existing asset portfolio. However, our ambition for the Borough remains and it is envisaged that sigificant remaining unspent balances in the existing Capital Plan (2020 – 2023) earmarked for economic regeneration and investment in the Enterprise Zone, some £28m, will continue to be available, whilst we will also invest the resources required, both financially and in time, to ensure that we maximise the opportunity afforded by the £17m funding available through Loughborough's Town Deal.

The Council holds significant cash balances and this is an important resource which we will use proactively. We continue to look for ways to refine our treasury operations and seek to minimise our external borrowing requirement.   We believe our existing Treasury Policies remain appropriate and security and liquidity will still be the key elements of the Council's approach to treasury management. However, the financial challenges ahead, coupled with – after many years – an upward trend in interest rates place even greater importance on the continuation of our strong record in this area.

Councillor Tom Barkley

Cabinet Lead Member for Finance & Property Services

January 2022

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 work is in progress on ambitious improvements in the public realm through investment in the Bedford Square area of Loughborough and plans under development for investment around Shepshed market place. A sum of £15m is set aside for regeneration investment which may complement the Loughborough Town Deal and allow investment 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 through the regular refresh of the Capital Plans.

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 has opened following a £0.8m investment whilst an initial £2m investment in the refurbishment of buildings within the Enterprise Zone out of the total £15m fund earmarked for this purpose 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

Capitalisation policies

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.

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.

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.

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.

Governance

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.

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.

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.

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.

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.

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.

Current and new Capital Plans

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

Whilst the final year of the current Capital Plan is 2023/24 a new Capital Plan covering the financial years 2022/23 to 2024/25 has been prepared and is due for approval at the Council of 21 February 2022 alongside this Capital Strategy. There are also significant items within the current Capital Plan – principally the amounts held for Regeneration (£15m) and forward funding of the Enterprise Zone (remaining balance £13m) - which have a profile spend in 2021/22 but are highly likely to be carried forward as prospective initiatives into future years.

In summary the situation may be illustrated as follows:

(Amounts £m)	*General Fund*	*HRA*
Final year of current Capital Plan (Planned spend 2022/23)	3.8	7.7
New Capital Plan 2022 - 2025	8.9	23.3
Estimated slippage from current Capital Plan into future years	28.0	-
PROJECTED SPEND – 2022 - 2025	**40.7**	**31.0**

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.

Funding of the Capital Plan

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.

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).

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.

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.

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

2. Capital Financing Requirement and borrowing

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.

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.

Additionally, an amendment to the 2021 version of the Prudential Code will prevent any acquisition of commercial investment property financed through borrowing.

The above changes mean that acquisition of assets purely for commercial returns is very difficult, other than at small scale such that the Council's *entire* Capital Plan could be financed by using existing reserves allocated for capital expenditure.

The Council continues to investigate investment opportunities that may have a commercial element alongside attributes supporting other Council objectives, such as regeneration, or the climate change agenda. Other than the £15m within the current Capital Plan earmarked for regeneration projects, no capital expenditure is included within either the new Capital Plan or Treasury Management Strategy for this type of opportunity. Any additional investment required would be need to be approved through updates to the extant Capital Strategy and Capital Plan in accordance with the Council's budgetary and policy framework.

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.

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

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).

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.

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

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

4. Commercial investments

The prolonged low interest rate environment has meant that treasury management investments have not generated significant returns. Even drafting this Strategy in early 2022, as inflation increases significantly after an extended benign period, interest rate forecasts show only a modest rise in rates. The introduction of the general power of competence (arsing from the Localism Act 2011) 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, led many authorities to consider different and more innovative types of investment.

More recently, the Government became increasingly concerned about the amount of borrowing undertaken by local authorities to fund investment for purely commercial return. This has resulted in a situation where the wider powers and flexibilities made available to local authorities remain, but the ability to fund certain investments is restricted if an authority would need to borrow in order to acquire it.

Regulatory framework

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

Separately, the Ministry of Housing, Communities and Local Government 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.

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

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

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.

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.

The latter point is becoming ever more topical as the override period is due to end in just over a year. It is likely in practice that the override will be extended (otherwise certain local authorities that were otherwise financially viable may be pushed into financial difficulties). From a Charnwood perspective, there are not material issues with either the Property Funds (two funds of £2.5m) or the commercial property portfolio, even if the override ceases; but this situation will be kept under close review and the Council will consider diverting interest and rental receipts to create a provision to cover any prospective loss on investment.

The Prudential Code is published by CIPFA (the chartered accountancy body which has a public sector focus), and aims to ensure local authorities' financial plans are affordable, prudent and sustainable. A new (2021) version of this code will apply from the 2022/23 financial year, which, as noted previously, tightens the definition of commercial investment and essentially prevents borrowing to finance the acquisition of assets purely for financial return. Although published by CIPFA, the Prudential Code does carry legal weight as the underpinning government regulations require that due regard is paid to the Code.

The following paragraphs outline the approach the Council adopts to the management of its commercial property portfolio.

Commercial Investment properties

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 2022)*
Loughborough	Car showroom	2.4	165	13 years
Banbury	Offices	7.7	540	4 years
Aberdeen	Industrial	3.6	211	9 years
Scunthorpe	Industrial	8.8	550	14 years
		22.5	**1,466**	

The 2022/23 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)	*2022/23 (Budget)*	*2023/24 (Projection)*	*2024/25 (Projection)*
Gross rent	1,466	1,466	1,466
MRP charge (40-year annuity life method)	(295)	(304)	(314)
Interest charge (based on internal borrowing)	(113)	(113)	(113)
Portfolio management charges	(50)	(50)	(50)
Contribution to reserve (balancing figure)	(358)	(349)	(339)
Net contribution to revenue budget	**650**	650	650

It may be noted that the above figures exclude net income from the Loughborough vaccination centre; such income is possible 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.

The total property reserve will be built up to ensure that a balance on the reserve of £1.5m is created before the first identified lease event (expiry of lease term on the Banbury property on 12 December 2025). The run rate set out above (some £0.3m+ per annum going forward) will ensure that this is achieved

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

Reporting and monitoring of the commercial property portfolio is undertaken by the Audit Committee.

Loans to local enterprises and third parties (no change in approach planned)

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

[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 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 2022/23 – 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 (no change in approach planned)

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 2022/23 - 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: Loughborough has secured funding of £17m 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:

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

STRATEGY FOR 2022/23 - 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 carried forward into 2022/23 and future years of the Capital Plan 2020-23 (subject to approval by Council). This is in addition to earmarked funding for specific projects such as Bedford Square

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

Investment in 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) has been created. To date £2m has been allocated and the £13m balance will be carried forward into 2022/23 and future years of the 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[4].

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

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

[4] This is subject to compliance with the new Prudential Code; technical interpretation of relevant sections is still in progress

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

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.

1.2. 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

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

2022/23

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 economic 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

CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. CIPFA has stated that there will be a soft introduction of the codes with local authorities not being expected to have to change their current draft TMSS/AIS reports in 2022/23, full implementation would be required for 2023/24.

It should also be noted by English authorities that the DLUHC is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.

However, this does not mean that local authorities may not currently have the legal powers to undertake such capital expenditure despite such guidance and regulation.

The DLUHC is also conducting a consultation on amending MRP rules for England.

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 2022/23
The strategy for 2022/23 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 2022/23-2024/25

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	***2021/22 Budget Estimate £'000***	***Actual Spend 31/12/2021 £'000***	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***	***2024/25 Budget Estimate £'000***
General Fund - general	10,697	4,484	4,330	2,991	1,580
Enterprise Zone	15,000	2,000	0	0	0
Regeneration	15,000	0	0	0	0
HRA	9,620	3,052	8,874	7,530	6,519
Total	**50,317**	**9,536**	**13,204**	**10,521**	**8,099**

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	***2021/22 Budget Estimate £'000***	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***	***2024/25 Budget Estimate £'000***
Total Capital Expenditure as per above table	**50,317**	**13,204**	**10,521**	**8,099**
Financed by:				
GF Revenue Contributions	15	0	0	0
GF Capital receipts	5,246	760	1,433	453
GF Capital Grants	5,236	3,570	1,558	1,127
GF Capital Plan Reserves	200	0	0	0
HRA Revenue Contributions	8,315	8,424	7,081	6,069
HRA Capital Receipts	1,305	450	449	450
Internal /External Borrowing	30,000	0	0	0
Total Funding	**50,317**	**13,204**	**10,521**	**8,099**

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 current (updated) Capital Plan (which was approved by Council 24th February 2020) and the main body of the Capital Strategy report, and comprise:

- 50% funding of the Environmental Services fleet in 2020/21 (£2.4m)
- Creation of a fund to purchase Commercial Property (£25m), which were all purchased in 2020/21. No further Commercial activities are planned beyond this date.
- Creation of a Regeneration fund to take advantage of opportunities arising from the Town Deal, and others that may arise; £15m.
- Creation of a £15m fund – to enable forward funding within the Enterprise Zone (to be repaid through business rates generated)

(In practice expenditure under the latter two headings may fall into later periods but the presentation assumes the earliest possible spend)

Capital Financing Requirement	***2021/22 Budget Estimate £'000***	***2022/23 Budget Estimate £'000***	***2023/24 Budget Estimate £'000***	***2024/25 Budget Estimate £'000***
CFR – (Fleet Less MRP)	2,100	1,800	1,500	1,200
CFR – (Commercial Activities Less MRP)	22,215	21,921	21,617	21,304
CFR – (Regeneration Less MRP)	15,000	14,810	14,614	14,412
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	**136,135**	**135,351**	**134,551**	**133,736**
Movement in CFR represented				
Net financing need for the year	7,500	0	0	0
Less MRP/VRP and other financing movements	(585)	(784)	(800)	(815)
Movement in CFR	**6,915**	**(784)**	**(800)**	**(815)**

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	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Plan Reserves	2,433	1,763	1,763	1,763	1,763
Capital Receipts 1-4-1	9,863	5,895	6,299	6,031	6,742
Other Capital Receipts	0	1,162	1,000	0	0
HRA MRR	3,210	3,210	3,210	3,210	3,210
HRA Financing Fund	11,630	9,682	9,682	9,682	9,682
Total core funds	**27,136**	**21,712**	**21,954**	**20,686**	**21,397**

The current Capital Plan runs through to 31 March 2023, in addition a new three Year Capital Plan 2022/23 – 2024/25 will be reported to Cabinet 10th February 2022. Funding for both plans are tabled 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 2021 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 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 2022/23 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.

	2021/22 Estimate £'000	***2022/23 Estimate £'000***	***2023/24 Estimate £'000***	***2024/25 Estimate £'000***
External Debt at 1 April	81,190	111,190	111,190	111,190
Expected change in Debt	30,000	0	0	0
Actual debt at 31 March	**111,190**	**111,190**	**111,190**	**111,190**
Capital Financing Requirement above 2.2	136,135	135,351	134,551	133,736
Under borrowing	**24,945**	**24,161**	**23,361**	**22,546**

The table shows that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future.
Capital Plan, 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. The above projections are consistent with the current Capital Plan and the new 3 year Capital plan.

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	*2020/21 Actual £'000*	*2021/22 Estimate £'000*	*2022/23 Estimate £'000*	*2023/24 Estimate £'000*
Debt	81,190	108,090	108,090	108,090
Non-financial investments	0	28,000	28,000	28,000
Total	**81,190**	**136,090**	**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*	*2021/22 Estimate £'000*	*2022/23 Estimate £'000*	*2023/24 Estimate £'000*
Debt	96,000	130,000	130,000	130,000
Non-financial investments	0	28,000	28,000	28,000
Total	**96,000**	**158,000**	**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 20th December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.

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

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

- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.

- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?

- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?

- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.

- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December**

meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends, all other things being equal. The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

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

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era for local authority investing
– a fundamental shift in central bank monetary policy
One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

3.4 Investment and Borrowing Rates

- **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

- **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 and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps 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 current 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)

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 2022/23 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.

- **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.

The Council currently has one long term market debt of £2m which matures in June 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.
Once this has loan has matured then a revenue Income stream of £232.5k PA will be available to support the General Fund budget.

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.

Creditworthiness.
Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

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. 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

<u>In-house funds</u> - 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, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

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

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

Investment returns expectations

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	Now	Previously
2022/23	0.50%	0.50%
2023/24	0.75%	0.75%
2024/25	1.00%	1.00%
2025/26	1.25%	1.25%
Long term later years	2.00%	2.00%

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	2022/23	2023/24	2024/25
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 5th January 2022

B (7). Treasury management scheme of delegation

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

ECONOMIC BACKGROUND **APPENDIX B(1)**

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it <u>would</u> raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  - Raising Bank Rate as "the active instrument in most circumstances".
  - Raising Bank Rate to 0.50% before starting on reducing its holdings.
  - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

  See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.

- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

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:

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 include certain 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 li

APPENDIX (B3)

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	£12m 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 and £12m in total	Up to 12 months
	Orange	£8m & (£18m 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 @ 5/1/2022

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, 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 5th January 2022 (for information only).

For illustrative purposes only the Council's investments as at 5th January 2022 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**
Close Brothers	Red	2,000	8,000	28/1/2022	6 Months
Standard Chartered Bank	Red	3,000	8,000	14/04/2022	6 Months
Standard chartered Bank	Red	3,000	8,000	27/05/200	6 Months
Santander	Red	8,000	8,000	180 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	8,000	35 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	8,000	95 Day Notice	6 Months
HSBC Bank	Orange	8,000	18,000	31 Day Notice	12 months
HSBC Bank	Orange	5,450	18,000	07/01/2022	12 Months
Money Market Funds	AAA Rated	21,330	30,000 in total	1 Day	12 Months
Property Funds	N/A	5,000	5,000 in total	N/A	20 Years
TOTAL		**60,780**			

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.

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 – 15th February 2022

Report of the Head of Strategic Support

Part A

ITEM 8 INTERNAL AUDIT PROGRESS REPORT Q3 2021-22

Purpose of Report

The report summarises the progress against the 2021/22 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 regular 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

Kerry Beavis
Audit Manager
(01509) 634806
kerry.beavis@charnwood.gov.uk

Part B

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

Appendices

Appendix 1 – INTERNAL AUDIT PROGRESS REPORT 2021/22 Q3

APPENDIX 1

INTERNAL AUDIT SHARED SERVICE

Charnwood Borough Council

Internal Audit Progress Report 2021/22 Q3

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 2021/22 Q3.

2 Internal Audit Plan Update

2.1 Since the last update report, Internal Audit work has continued on the 21/22 audit plan with 3 final audit reports being issued (see Appendix A). Work has also continued on the post payment assurance verification of COVID19 Business Grants. Additionally, audit have carried out the benefits subsidy testing.

2.2 The following audits were issued in final during Q3, all 3 being given reasonable assurance. The executive summaries and recommendations are included at Appendix B:

- 2021/22 Stray Dog Contract – Reasonable Assurance
- 2021/22 Commercial Lettings – Reasonable Assurance
- 2021/22 Acquisitions Policy – Reasonable Assurance

3.0 Outstanding Recommendations

3.1 Internal Audit monitor and follow up all critical, high and medium priority recommendations. There are 13 overdue recommendations which are detailed in Appendix C for information.

3.2 Appendix D details recommendations previously reported but, as yet, have not reached their implementation date.

4.0 Internal Audit Performance Indicators

4.1 Progress against the agreed Internal Audit performance indicators is included in Appendix E. There are no areas of concern to highlight.

APPENDIX A

AUDIT PLAN AS AT 31st DECEMBER 2021

Audit Area (Report No.)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations				Comments
						C	H	M	L	
Asset Management	Audit	10	12	Completed	Limited	-	7	3	1	
Disabled Facilities Grants	Certification	5	2.5	Completed						
Commercial Property Project	Audit	10	12.5	Completed	Reasonable	-	2	2	-	
Commercial Lettings	Audit	10	16.5	Completed	Reasonable	-	2	5	-	
Acquisitions Policy	Audit	8	9	Completed		-	2	3	1	
Fleet Management	Audit	10	12	Completed	Reasonable	-	3	2	-	
Risk Management	Audit	10	8	Completed	Limited		3	5	-	
Choice Based Lettings	Audit	10	-	Scheduled Q4						
Building Control	Audit	8	2	In progress						Joint audit with NWLDC
Electrical Safety	Audit	8	0.5	Planning						
Stray Dog Contract	Audit	10	9	Completed	Reasonable	-	-	3	-	Addition to the plan
Benefits Subsidy	Assurance		60	In progress						Addition to the plan
Covid-19 related assurance	Assurance	40	77	As required						This has been higher than planned in Q1 due to new grants and level of checking required by central

										government. Will be able to use some of the NFI time as do not expect to use all of that.
Procurement Advisory	Advisory	3	-	As required						
SWAP Advisory	Advisory	15	-	As required						
DVLA Database Access	Advisory	3	3	Completed						
Markets – New Booking System	Advisory	2	-							
NFI	Assurance	30	0.5	As required						
IT Project Management	Audit	BDO		Draft report due						Audit to be delivered by BDO ICT audit specialist.
IT and Cloud Strategy	Audit	BDO		Draft report due						Audit to be delivered by BDO ICT audit specialist.
Data Governance and Operational Cloud Security	Audit	BDO		Scheduled Q4						Audit to be delivered by BDO ICT audit specialist.

STRAY DOG CONTRACT

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:

- Key Council procedures and processes are documented, and procedures have been updated to reflect changes made during the pandemic.
- Contract monitoring arrangements are satisfactory, and the service is being delivered to the expected level and quality as set out in the contract.
- Invoices are reviewed for accuracy and payments have been made correctly.
- Receipts are issued to owners upon collection.

The main areas identified for improvement are:

- The publicised fees and charges had not been updated in a timely manner.
- Income/expenditure is not being recorded correctly in the accounts.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
1. The council's website is updated to reflect the current fees and charges and processes are put in place to ensure these are reviewed on an annual basis.	Medium	Agreed and amended with immediate effect.	Enviro-crime and Dog Control Manager	Implemented during the course of the audit.
2. Officers undertaking the task of apportioning invoiced costs are given appropriate training.	Medium	Appropriate training will be given to the relevant officers and Manager to supervise process over the next few months. Invoice layout to be reviewed by contractor.	Enviro-crime and Dog Control Manager	March 2022
3. A review of income and expenditure within the account codes is carried out to identify and correct any miscoding	Medium	Agreed as per recommendation.	Enviro-crime and Dog Control Manager	March 2022

COMMERCIAL LETTINGS

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:

- An up to date database of Commercial units is maintained which contains key information.
- Lease agreements are signed, securely stored and easily located.
- Invoices for rental payments are monitored and processes are in place to follow up non-payment.
- Adequate insurance cover is in place.

The main areas identified for improvement are:

- Reviews of rent and service charges.
- Budget monitoring responsibility and management.
- Void performance reporting.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
1. A full set of procedure documents should be in place which cover all key aspects of the Commercial Lettings area.	Medium	Agreed to implement local procedures to cover areas.	Business Centre / Ind Managers and Senior Property and Asset Officer.	Dec 2021
2. Increases in rent charges should be calculated in line with Section 7 of the lease agreement. Details of how the increase has been calculated should be retained. The decision as to whether or not to increase rents should be formally documented and appropriately agreed.	High	Flat 3% increase applied for 3 years to 20/21 due to no previous increases being made. Going forward rent increases will be carried out in line with the lease agreement.	Strategic Asset Manager, Business Centre / Ind Managers and Senior Property and Asset Officer.	April 2022
3. A valuation of the Commercial Units should be undertaken in order to compare the rents currently charged for units to market rents. This exercise should be repeated at regular intervals, e.g. every five years, to provide assurance that the rents charged are in line with achievable income.	Medium	Agreed – will instruct external company for a comparable to be carried out.	Strategic Director of Commercial Development, Asset and Leisure and Strategic Asset Manager.	April 2022
4. A breakdown of all service costs is calculated to ensure it covers all rechargeable cost, as per the lease agreement. This is then provided to the tenant two months prior to the service charge review date, again, as per the lease agreement.	High	Agreed, a process will be implemented across all teams. As leases expire these will be reviewed and brought into line with the process.	Strategic Director of Commercial Development, Asset and Leisure and Strategic Asset Manager.	April 2022

5. Responsibility for managing budgets for Commercial Lettings should be formally assigned and budget monitoring carried out appropriately.	High	Agreed and partially implemented, will be fully reviewed as the service area is restructured.	Strategic Asset Manager	Implemented
6. The performance measures report showing occupancy rates should be provided to Management on a regular basis e.g. monthly / quarterly as agreed.	Medium	Agreed	Strategic Asset Manager	December 2022
7. Management develops a comprehensive single source of data to track and record assets which allows them to see a complete picture for each asset in real time, which can be used to support the Asset Management Action Plan and give assurance that the authority is meeting their legal responsibilities.	High	Agreed, for the proportion that are controlled by the authority and where it is the tenant's responsibility evidence will be requested from the tenant.	Strategic Asset Manager and Senior Property and Asset Officer.	April 2022

ACQUISITIONS POLICY

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

The main areas identified for improvement are:

- The constitution does not document the delegated authority for the Head of Strategic and Private Sector Housing to amend the policy.
- Written procedures do not document the full process.
- Procedures need amending to ensure that the policy is being adhered to and appropriate due diligence is completed.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
1. The website is updated to include the current Housing Acquisitions Policy 2021 and further reviews are carried out in a timely manner.	Low	The 2021 policy has been uploaded on the website.	Head of Strategic and Private Sector Housing.	Implemented.

2. The constitution is updated to reflect the Head of Strategic and Private Sector Housing to include delegated authority to make minor amendments to the Housing Acquisitions Policy	Medium	The constitution will be checked and any necessary amendments will be made.	Head of Strategic Support/Democratic Services Manager	December 2021
3. The acquisitions procedure is updated to include the beginning of the process, starting with how a property is identified.	Medium	Agreed as per recommendation.	Head of Strategic and Private Sector Housing.	January 2022
4. Management ensure that purchases are made in line with the policy.	High	The Policy to be reviewed again and any amends to be approved in line with the Constitution, and a revised copy of the Policy to be uploaded to the website.	Head of Strategic and Private Sector Housing.	January 2022
5. The procedures are updated to ensure that they fully reflect the requirements of the policy.	Medium	Update the procedures to reflect the requirements of the Policy.	Head of Strategic and Private Sector Housing.	January 2022
6. A full review is carried out in relation to the delegated authority in this process to ensure that there is independence within the process.	High	Agreed. Will discuss the process and decision-making changes required with Democratic Services. Head of Strategic and Private Sector Housing management comment: The day to day management of the process is normally the responsibility of the Housing Strategy and Support Manager, however this post is currently vacant.	Strategic Director of Community, Planning and Housing.	December 2021

RECOMMENDATIONS TRACKER – OVERDUE RECOMMENDATIONS AS AT 31ST DECEMBER 2021 (CRITICAL, HIGH AND MEDIUM PRIORITY) APPENDIX C

Audit	Recommendation	Priority	Response/Agreed Action	Responsible Officer	Current Target Date	Previous Target Dates	Internal Audit Comments
2020/21 Audits							
Absence Management	3.1 The HR Management System (iTrent) has a workflow facility which automatically sends an email to HR and to the relevant Manager once an employee reaches a trigger point in the absence management policy. e.g. has a third absence in six months. It is recommended that this facility is utilised so that HR and Managers receive real-time notifications of triggered absences. The workflow should be set up by the Systems Administrator based on a staffing establishment / organisational structure to ensure that notifications are sent to the right people	Medium	Consider utilising the iTrent System to identify and manage triggers.	System Analyst	Dec-21	Dec-20	The workflows are very complex therefore taking longer to configure. Request Defer to Dec-21.
Absence Management	4.1 All staff with absence management responsibilities (e.g. line managers and Heads of Service) should attend a training session delivered by the HR team to discuss discretion and how and when it can be applied. The session should address the application of manager discretion to the absence management policy and aim to clarify when it is and is not appropriate to apply discretion.	Medium	HR to include absence management in their next briefing sessions	LCC Human Resources	Dec-21	Apr-21	HR are currently undertaking other briefing sessions so have not scheduled Absence Management Briefing Sessions as yet. However, it is anticipated that these be completed by 31 December 2021

Strategic Communications	1. The Annual Communications Report should refer to the strategy, for example detailing the original objectives and under each stating what has been done that year to achieve the objective, supporting figures and performance statistics and a reflection on the performance.	Medium	Review the annual Communications report to more closely reflect the Communications Strategy	Communications Manager	Dec-21	Mar-21	The review is underway, and surveys have been carried out with internal and external audiences about the effectiveness of the Council's communications.
NNDR	1. The discretionary business rates policy is reviewed and updated on a regular basis.	Medium	Agreed – this will be discussed with the Director of Environment & Corporate Services as to the responsibility for the updating of the policy.	Head of Customer Service	Jan-22	Sept-21 Dec-21	Advised that this is still progress and has not been completed at this stage, it is anticipated that it will be completed by the end of Jan-22.
NNDR	2. Consideration is given to awarding reliefs and exemptions for a set period only. This should be detailed within the policy	Medium	As there is no legal basis to time-limit the award we will not set a time limit for an award however within the review of the DBR Policy the introduction of reviews of reliefs to ensure validity will be considered	Head of Customer Experience	Jan-22	Jun-21 Dec-21	Advised that this is still progress and has not been completed at this stage, it is anticipated that it will be completed by the end of Jan-22.
Asbestos Management	9. A review of the information held on the asbestos register is carried out and updated to ensure that the authority is meeting its legislative requirement in relation to keeping an up-to-date record of the location and condition of the asbestos- containing materials - or materials which are presumed to contain asbestos.	High	Agreed, current system to be reviewed, developed, or replaced as appropriate.	Compliance Manager	Dec-21	Aug-21 Nov-21	In progress
Fire Safety and Management	2. Contract monitoring is carried out on a regular basis and appropriately documented.	Medium	Agreed – to be established as part of mobilisation of new contracts	Compliance Manager	Dec-21	Oct-21	In progress following new contracts being awarded.

Fire Safety and Management	6. Further work is carried out to ensure that the inspections carried out by the Housing Assistant are relevantly reported and issues are actioned.	Medium	Agreed	Landlord Services Manager	Feb-22	Oct-21 Nov-21	A new risk condition survey is being developed.
2021/22 Audits							
Corporate Risk Management	1. The strategy and framework are wed and updated, and relevantly approved flect the current position of the authority.	High	Agreed as per recommendation	Organisational Development Manager	Mar-22	Dec-21	The Risk Management has been reviewed and discussed at SLT and CLT. The final version will be presented to Audit Committee on the 15th February and to Cabinet on the 10th March 2022.
Corporate Risk Management	2. The strategy and framework are made available for staff to ensure the promotion of risk management across the authority.	Medium	Agreed as per recommendation	Organisational Development Manager	Mar-22	Dec-21	Once approved the new framework and SRR will be added to the intranet and website.
Corporate Risk Management	4. Officers should ensure that the strategic risk register is accurately recorded and updated and is being managed in line with the risk management framework.	High	Agreed as per recommendation	Organisational Development Manager	Mar-22	Dec-21	The SRR will be managed through the Risk Management Group - which has newly developed Terms of Reference
Commercial Property Project	1. A risk assessment is completed which considers the current risks associated with investment properties which is regularly reviewed, and where necessary updated, and is included in the report to Audit Committee.	High	Officers will investigate the addition of risks to the corporate risk management process and relevant risks will be included in the report for Audit Committee.	Strategic Director of Commercial Development, Asset and Leisure	Dec-21		No update received

Commercial Lettings	1. A full set of procedure documents should be in place which cover all key aspects of the Commercial Lettings area.	Medium	Agreed to implement local procedures to cover areas.	Business Centre / Ind Managers and Senior Property and Asset Officer.	Dec-21		No update received

APPENDIX D

RECOMMENDATIONS TRACKER – RECOMMENDATIONS PREVIOUSLY REPORTED BUT NOT YET DUE AS AT 31st DECEMBER 2021 (CRITICAL, HIGH AND MEDIUM PRIORITY)

AUDIT YEAR	AUDIT	RECOMMENDATION	PRIORITY	RESPONSE/AGREED ACTION	RESPONSIBLE OFFICER	CURRENT IMPLEMENTATION DATE
2021/22	Asset Management	1. Officers ensure that a new Asset Management Strategy is produced and approved in time to replace the current strategy and that it becomes a working document that is updated as the priorities of the council develop over the time. Management should consider existing resources, such as the Royal Institution of Chartered Surveyors Asset Management Guidelines and Department of Communities and Local Government framework for Local Authorities on Asset Management when developing the Strategy and any related documents.	High	A revised Strategy, with guiding principles rather than a list of objectives, will be put in place to lead the council forward	Strategic Director of Commercial Development, Asset and Leisure	Apr-22
2021/22	Asset Management	2. Officers ensure that all policies and documents are in place, up to date and available to support the progression of the strategy.	High	As per recommendation one.	Strategic Director of Commercial Development, Asset and Leisure	Apr-22

2021/22	Asset Management	3. The processes in place for managing the asset information are formalised. These processes should at least describe how council's collect, analyse and evaluate the information to ensure decision making is evidence based and identifies the roles and responsibilities of the officers involved in those processes	High	Relevant processes will be put in place as per response to recommendation one.	Strategic Director of Commercial Development, Asset and Leisure	Apr-22
2021/22	Asset Management	4. Management should consider the National Asset Management Assessment Framework self-assessment which assesses the maturity of asset management practices and processes.	Low	Agreed as per recommendation.	Strategic Director of Commercial Development, Asset and Leisure	Apr-22
2021/22	Asset Management	5. The current asset insurance list is circulated annually, prior to the renewal of insurance, requesting that officers update the areas relevant to their service.	Medium	Agreed as per recommendation to issue to CLT annually.	Insurance Officer	Jan-22
2021/22	Asset Management	7. Management develops a comprehensive single source of data to track and record assets which allows them to see a complete picture for each asset in real time, which can be used to support the Asset Management Action Plan and give assurance that the authority is meeting their legal responsibilities	High	Agreed	Strategic Director of Commercial Development, Asset and Leisure and Strategic Asset Manager	Sep-22
2021/22	Asset Management	9. Consideration is given to asset maintenance budgets being centralised to ensure that the authority can maintain their asset stock to the condition required.	High	Agreed in principle though the governance programme will be changed this will be undertaken in line with recommendation one.	Strategic Director of Commercial Development, Asset and Leisure	Apr-22

2021/22	Asset Management	10. The review and validation of the register should ensure that all information held is complete and accurate. Consideration should be given to including fields such as acquisition and disposal dates, current condition/defects and running cost, inspection and compliance requirements and planned works.	High	Agreed that the review will be completed and key data considered.	Strategic Asset Manager	Sep-22
2021/22	Corporate Risk Management	3. Standard risk management templates are used across the authority for consistency and to ensure the same level of risk management is embedded in all services, projects and partnerships.	Medium	Agreed as per recommendation	Organisational Development Manager	Mar-22
2021/22	Corporate Risk Management	6. Consideration should be given to promoting the use of specific risk registers when working in partnerships to encourage ownership of particular risks across the partnership.	Medium	Agree, will be included in the new framework but to fully implement will be looking at March 2022	Organisational Development Manager	Mar-22
2021/22	Corporate Risk Management	7. A review of training is carried out to ensure that all officers and members receive the correct level of training to reflect their responsibilities within the risk management process.	High	Agreed as per recommendation	Organisational Development Manager	May-22
2021/22	Fleet Management	1. Management review the policy and procedures for the reporting of non-compliance and defect issues and as part of that review ensure that relevant officers have appropriate decision-making authority. This will ensure that relevant action is taken in a timely manner to protect the authority in relation to legal requirements.	Medium	Agreed as per recommendation	Head of Cleansing and Open Spaces and Contracts Manager	Mar-22

2021/22	Fleet Management	3. Management will liaise with Human Resources to ensure that the policy is issued as part of the induction process for those posts where the employee is likely to use a council vehicle. Similar to where there is a requirement for a DBS check against particularly posts.	High	Management will liaise with Human Resources to ensure that the policy is issued as part of the induction process for those posts where the employee is likely to use a council vehicle. Similar to where there is a requirement for a DBS check against particularly posts.	Organisational Development Manager	Jan-22

INTERNAL AUDIT PERFORMANCE INDICATORS

PERFORMANCE MEASURE	POSITION AS AT 31st DECEMBER 2021	COMMENTS
Delivery of 2021/22 Audit Plan	60%	2 audits are in progress, with a further 3 audits in the planning stage.
Percentage of Client Satisfaction with the Internal Audit Service	100%	Based on five returns for 21/22.
Compliance with the Internal Audit Standards	Conforms	Inspection took place w/c 30th November 2020. Internal Audit Service conforms to the Public Sector Internal Audit Standards.
Compliance testing of completed recommendations	100%	

AUDIT COMMITTEE – 15th FEBRUARY 2022

Report of the Head of Strategic Support

Part A

ITEM 9 2022/23 INTERNAL AUDIT ANNUAL PLAN

Purpose of Report

To present the proposed Internal Audit Annual Plan for 2022/23, including the proposed IT Audit Plan for 2021/22.

Recommendation

The Committee is recommended to approve the proposed audit plan as set out in the appendix.

Reason

To ensure that Internal Audit resources are effectively utilised.

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

Progress against the plan will be reported to Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None

Risk Management

The risks associated with the decision the Committee is asked to make and proposed actions to mitigate those risks are set out in the table below.

I

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
Failure to approve a satisfactory audit plan could lead to ineffective targeting of audit resources.	Unlikely (2)	Serious (3)	Moderate (6)	Audit plans are developed using a risk-based methodology and in consultation with Corporate and Senior Management Teams (the approach as required by the Public Sector Internal Audit Standards).

Background Papers: Public Sector Internal Audit Standards

Officers to contact:

Adrian Ward
Head of Strategic Support
(01509) 634573
adrian.ward@charnwood.gov.uk

Kerry Beavis
Audit Manager
(01509) 634806
kerry.beavis@charnwood.gov.uk

Part B

1. BACKGROUND

1.1. The Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive (CAE) establishes a risk-based audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. The Chief Audit Executive for Charnwood Borough Council is the Shared Service Audit Manager.

1.2. The PSIAS also require that the risk-based plan must consider both the requirement to produce an annual Head of Internal Audit opinion to support the Annual Governance Statement and the assurance framework.

1.3. The Internal Audit Service will be delivered and developed as set out in the Internal Audit Charter

1.4. The audit plan is required to be reviewed and approved by both senior management and the 'Board'. As set out in the Internal Audit Charter, the role of the 'Board' is fulfilled by the Audit Committee. The Senior Leadership Team reviewed and approved the audit plan on the 26th January 2022.

1.5. Progress against the approved audit plan, together with any amendments required during the year, will be reported to the Audit Committee quarterly through the year.

2. INTERNAL AUDIT PLAN 2022/23

2.1. The proposed Audit Plan for 2022/23 is attached as an Appendix. The Audit Plan has been prepared following a risk-based assessment of the Council's activities and consultation with the Senior Leadership Team and Corporate Leadership Team, to identify the Council's key risks.

2.2. Each audit assignment included in the Plan has been aligned to the Strategic Risk Register where appropriate and to the priority area for the Council.

2.3. The specialist resources for technical Information Technology (IT) audits have been externally procured. Further details are recorded within the proposed plan.

<u>Appendices</u>

Appendix - 2022/23 Internal Audit Plan

INTERNAL AUDIT SHARED SERVICE

Charnwood Borough Council

2022/23 Internal Audit Annual Plan

4

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 2022/23 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. <u>Overall Strategy</u>

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 2022/23. 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 2022/23. 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. <u>Resources Available</u>

3.2.1 The Audit Team who will deliver the 2022/23 annual audit plan at Charnwood Borough Council consists of the Audit Manager (0.32 FTE), Senior Auditor (0.66) and an Internal Auditor (0.8 FTE). Table 1 shows a calculation of the available audit days for 2022/23.

Table 1: Resources Available

Available Days	**366**
Team and Contract Management / Annual Opinion/ Annual Plan/Audit Committees/Progress Reports/External Audit	25
Corporate Meetings/General Admin/ Minutes Review/Regional Audit Groups	35
Available Audit Days	**306**

3.3. <u>Internal Audit Annual Plan 2022/23</u>

3.3.1 The proposed 2022/23 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 2022/23 (see Appendix A)	254
Completion of 2020/21 Outstanding Audits	13
Follow up reviews	14
Advisory – Adhoc	12
Public Sector Internal Audit Standards	4
Contingency	9
Total Audit Days	**306**

3.3.2 The contract with BDO to provide the IT audits to Charnwood BC is due to end in March 2022. A procurement process is currently underway for the provision of the IT audit service for a 2-year period, with the intention of carrying out key IT control audits in these years.

The audit will be reviewed in Q1 2022/23 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 **9** days have been included at this time. However, 20 days have been allocated in the plan to continue to respond to any Covid-19 related assurance and a further 20 days for NFI work 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

2022/23 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 & audit	Q2	Theme 2		Medium	6
SUBTOTAL						**6**
PLANNING AND REGENERATION						
S106 Agreements	Audit	Q2	Theme 3		High	6
SUBTOTAL						**6**
CLEANSING AND OPEN SPACES						
Open Spaces Contract Management	Audit	Q1	Theme 1		High	7
SUBTOTAL						**7**
LEISURE AND CULTURE						
Town Hall		Q3	Theme 3		High	10
SUBTOTAL						**10**
FINANCE AND CORPORATE SERVICES						
Key Financial Systems	Audit	Q3/Q4	Theme 4		Low	45
Capital Programmes	Audit	Q2	Theme 4		High	10
Covid-19 related assurance work	Assurance	All year	Theme 4		Medium	20
Benefits Subsidy	Assurance	Q3/Q4	Theme 4		Medium	60
SUBTOTAL						**135**
LANDLORD SERVICES						
Planned & Cyclical Maintenance	Audit	All year	Theme 2		High	30
Responsive Repairs	Audit	All year	Theme 2		High	30
SUBTOTAL						**60**

CROSS CUTTING						
Workforce Planning	Audit	Q1/2	Theme 4		Medium	10
National Fraud Initiative	Non audit	Q1/2	Theme 4		High	20
SUBTOTAL						30
TOTAL 'INHOUSE' DAYS						**254**
OUTSOURCED IT AUDITS*						
IT Key Controls Audit	Audit		Theme 4	SR1	High	40
SUBTOTAL						**40**
TOTAL						**294**

Key

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

AUDIT COMMITTEE – 15th FEBRUARY 2022

Report of the Head of Strategic Support

Part A

ITEM 10 COUNCIL'S USE OF REGULATORY OF INVESTIGATORY POWERS ACT (RIPA)

Purpose of Report

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

Recommendation

The Committee notes that there has been no use of RIPA powers by the Council for the period from 1 November 2021 to 31 January 2022.

Reason

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

Policy Justification and Previous Decisions

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

Implementation Timetable including Future Decisions

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

Report Implications

The following implications have been identified for this report.

Financial Implications

None.

Risk Management

There are no risks associated with this decision.

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

Part B

Background

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

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

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

4. At its meeting on 11 February 2021 Cabinet agreed to resolve that the Audit Committee continue to assume responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose. This Committee will therefore continue to receive a regular report on the Council's use of RIPA powers.

5. During the period from 1st November 2021 to the 31st January 2022 the Council made no use of RIPA powers.

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

AUDIT COMMITTEE – 15th FEBRUARY 2021

Report of the Head of Strategic Support

ITEM 11 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 considers the recommendation from Cabinet that the Governance and risk aspect of Commercial Investment and performance review includes consideration of rents and charges.

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 enable the Committee to monitor Commercial Investment rents and charges as recommended by Cabinet.

Background

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

As agreed by the Cabinet at its meeting on 13th February 2020 and by the Scrutiny Commission at its meeting on 10th August 2020, the Budget Scrutiny Panel undertook scrutiny of the Council's draft budget for 2021/22. It made several recommendations to be submitted to the Cabinet. It recommended that:

The income from commercial investments should be monitored and reported by the Audit Committee and/or Scrutiny Commission on a monthly basis, since this income is crucial for maintaining safe and appropriate level of reserves.

This recommendation was considered by the Cabinet at its meeting on 11 February 2021 (minute 84 2021 refers) and agreed:

that in respect of Panel Recommendation 1, in order to better reflect true asset performance, reports are submitted to the Audit Committee and/or Scrutiny Commission on a quarterly basis, after the quarter days where rent payments are made.

Officer to contact: Ed Brown
Democratic Services Officer
(01509) 634502
Ed.brown@charnwood.gov.uk

APPENDIX

ISSUE	MEETING
External Audit Progress Report and Technical Update **External Audit Business** ***If required***	*Standing Item*
Council's Use of Regulation of Investigatory Powers Act (RIPA)	*Standing Item*
Internal Audit Plan – Progress	*Standing Item*
Risk Management (Risk Register)	*Standing Item*- to be reported by exception following the report in February 2022 with new methodology.
Governance and Risk Aspect of Commercial Investment and Performance Review - EXEMPT	*Standing Item*
2021/22 Annual Audit Letter **External Audit Business**	12th July 2022 Annually
2021/22 External Audit Plan **External Audit Business**	12th July 2022 Annually
2021/22 Annual Audit Letter **External Audit Business**	12th July 2022 Annually
2021/22 Members' Allowances Claimed	12th July 2022 Annually
Whistle Blowing and Anti-fraud, Corruption and Bribery	12th July 2022 2022 Annually
Environmental Audit	12th July 2022 Annually

2021/22 Treasury Management Outturn	12th July 2022

2021/22 Annual Governance Statement and Review of the Code of Corporate Governance	8th November 2022 (Accounts Meeting) Annually
2021/22 Annual Governance Report External Audit Business	8th November 2022 (Accounts Meeting) Annually
2021/22 Statement of Accounts	8th November 2022 (Accounts Meeting) Annually
Internal Audit Charter **Internal Audit Business**	22nd November 2022 Annually (for approval)

Treasury Management Mid-Year Review	17th January 2023 Annually
2021/22 Treasury Management Statement, Annual Investment Strategy and MRP Strategy	18th April 2023 Annually
2022/23 Internal Audit Plan **Internal Audit Business**	18th April 2023 Annually
2021/22 Annual Audit Letter	18th April 2023 Annually
Risk Management (Risk Register) **Internal Audit Business** ***If required***	18th April 2023 By exception
Council's Use of Regulation of Investigatory Powers Act (RIPA)	18th April 2023 Quarterly
External Quality Assessment of Internal Audit	18th April 2023
Capital Strategy 2022/23	18th April 2023 Annually

Annual IT Health Check (Code of Connection) -EXEMPT	To be Allocated Annually – **Moved from February 2021 meeting.**
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