



Please ask for: Matt Berry
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29 January 2021

Dear Councillor,

Audit & Governance Committee

4:00pm, Monday 8 February 2021

Meeting to be held via Remote Access

You are invited to attend this meeting for consideration of the matters itemised in the following Agenda.

Yours sincerely,

T. McGovern
Managing Director

To: Councillors

Stretton, Mrs. P.Z. (Chairman)
Jones, Mrs. V. (Vice-Chairman)

Cartwright, Mrs. S.M. Todd, Mrs. D.M.
Fisher, P.A. Woodhead, P.E.
Hughes, R.J.

Agenda

Part 1

1. Apologies

2. Declarations of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

To declare any personal, pecuniary or disclosable pecuniary interests in accordance with the Code of Conduct and any possible contraventions under Section 106 of the Local Government Finance Act 1992.

3. Minutes

To approve the Minutes of the meeting held on 30 November 2020 (enclosed).

4. Internal Audit Progress Report 2020-21

Report of the Chief Internal Auditor & Risk Manager (Item 4.1 – 4.9).

5. Strategic Risk Register

Report of the Head of Governance and Corporate Services (Item 5.1 – 5.27).

6. Annual Governance Statement Progress Update

Report of the Head of Governance and Corporate Services (Item 6.1 – 6.7).

7. Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy and Capital Strategy 2021-22

Report of the Head of Finance (Item 7.1 – 7.38).

Report is presented as considered by Cabinet on 28 January 2021.

Cannock Chase Council
Minutes of the Meeting of the
Audit and Governance Committee
On Monday 30 November 2020 at 4:00pm
Held via Remote Access

Part 1

PRESENT:
Councillors

Stretton, Mrs. P.Z. (Chairman)
Jones, Mrs. V. (Vice-Chairman)

Hughes, R.J. Woodhead, P.E.
Todd, Mrs. D.M.

Also present:

- John Farrar, Director, Grant Thornton (External Auditors)

9. Apologies

None.

10. Declaration of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

No Declarations of Interests were made in addition to those already confirmed by Members in the Register of Members' Interests.

11. Minutes

That the Minutes of the meeting held on 29 June 2020 be approved as a correct record.

12. The Audit Findings for Cannock Chase District Council 2019/20

Consideration was given to the Report of the External Auditors (Item 4.1 – 4.32 of the Official Minutes of the Council).

The External Auditor talked the Committee through the following sections of the report, setting out the key matters for Members to be aware of:

- Headlines
- Audit approach
- Significant audit risks
- Other audit risks
- Significant findings – key estimates and judgements

- Significant findings – going concern
- Other matters for communication
- Other matters for consideration under the Code of Audit Practice
- Value for Money
- Independence and ethics
- Audit adjustments
- Fees
- Draft Audit Opinion
- Draft Letter of Representation.

In response to a query from a Member concern the Council's 'going concern' position and the Committee's responsibilities on managing this, the External Auditor advised that the accounting code required local authority accounts to be prepared on a going concern basis. The key issue to be aware of was in relation to the disclosure concern material uncertainty for the period ahead. Management's assessment was that no such uncertainties existed for the next twelve months, and this view was separately reached by the external auditors as part of their work. The Head of Finance further advised uncertainty existed across all of local government, but this Council's own position was based on the level of reserves available to address liabilities and financial plans prepared for future years.

RESOLVED:

That the report of the External Auditors be noted.

13. External Audit of the Statement of Accounts 2019/20

Consideration was given to the Report of the Head of Finance (Item 5.1 – 5.7 of the Official Minutes of the Council).

The Head of Finance advised that the Committee was asked to consider and receive the three reports included on the agenda related to the statement of accounts, as the external auditors had to be satisfied that the Committee had considered all relevant issues and agreed the Management Representation Letter.

RESOLVED:

That

- (A) The contents of the report be noted.
- (B) The Management Representation Letter, as attached at Appendix 1 to the report, be approved.

14. Statement of Accounts 2019/20

Consideration was given to the Report of the Head of Finance (Item 6.1 – 6.6 of the Official Minutes of the Council).

The Chief Accountant advised that paragraph 5.1 of the report set out the process followed for preparing the accounts for sign off by the Committee, and paragraphs 5.4 to 5.10 provided an overview of the key areas of the accounts for Members awareness.

In response to a query from a Member regarding the Comprehensive Income and Expenditure Statement (page 29 of the accounts booklet), the Chief Accountant advised that the large movement in figures stated primarily related to the pension fund, which was circa £25m alone. Further details were provided on pages 82 and 83 of the accounts.

In response to a query from the same Member concerning the material items of income and expense and reduction in the net cost of services (page 49 of the accounts), the Head of Finance advised that the figures stated were a comparator to the previous year's accounts, rather than being budgeted cost compared to actual cost for the 2019/20 financial year. The reduction mainly related to variations in capital charges, whereby some assets did not add value so were written off as revenue instead. The Chief Accountant further advised that any significant differences in non-capital items for next year would be detailed in the same section of the accounts for 2020/21.

In response to a query from another Member concerning the Council's share of council tax debtors (page 48 of the accounts), the Head of Finance advised that the debt figure quoted covered a period of 10 to 15 years, and debts would only be written off if they could not be recovered by the Council. Furthermore, the collection rate for Council Tax was over 98%, which was on a par with like for like local authorities.

RESOLVED:

That the audited Statement of Accounts for 2019/20 be approved.

15. Annual Treasury Management Report 2019/20

Consideration was given to the Report of the Head of Finance (Item 7.1 – 7.13 of the Official Minutes of the Council).

The Head of Finance advised that the report was presented to the Committee later than normal as it needed to conform with the statement of accounts. The narrative included was now out of date as it reflected the 2019/20 financial year, but the key aspect of the report for Members to know was that the indicators set out complied with legal and accounting requirements.

In response to a query from a Member concerning investment policy decisions, in particular ethical investments, the Head of Finance advised that the criteria for determining investment options was set out in the annual Treasury Management Strategy report. The next version of the report would be presented to the Committee in January 2021; therefore, Members would have the opportunity then to discuss ethical investments. The same Member then asked that discussions on this take place before the next meeting of the Committee.

RESOLVED:

That:

- (A) The Annual Treasury Management report for 2019/20 be noted.
- (B) The actual 2019/20 prudential and treasury indicators, as set out in Appendix 1 of the report, be approved.

The meeting closed at 4:43 p.m.

CHAIRMAN

Report of:	Chief Internal Auditor
Contact Officer:	Stephen Baddeley
Contact Number:	01543 4415
Report Track:	Audit & Governance Committee: 08/02/21

**Audit & Governance Committee
8 February 2021
Internal Audit Progress Report 2020-21**

1 Purpose of Report

- 1.1 To present to the Audit & Governance committee for information a progress report on the work of Internal Audit.

2 Recommendation(s)

- 2.1 That the Committee approves the revised Audit Plan set out in Appendix 1
- 2.2 That the Committee notes the progress report

3 Key Issues and Reasons for Recommendations

Key Issues

- 3.1 2020-21 has been an unusual year for the Internal Audit section as like most services of the Council it has been impacted by the Coronavirus pandemic. In the early part of the year most of the Internal Audit work was put on hold and staff were redeployed to assist in the response.
- 3.2 The Internal Audit Section started to progress audits from June 2020 but the lost time and the changed environment both within the Council and wider has led to a need to revise the Audit Plan for the year.

Reasons for Recommendations

- 3.3 The original Internal Audit plan could not be completed in the remainder of the year and did not fully reflect the current risks to the Council. The plan has been revised based on an estimate of the audit resources available for the rest of the year and current risks faced by the Council

4 Relationship to Corporate Priorities

- 4.1 The system of internal control is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities

5 Report Detail**Audit Plan**

- 5.1 The Internal Audit Plan for 2020-21 was originally approved by the Audit Committee on 24th March 2020 which was right at the start of the Pandemic before the Council was fully aware of its impact. The Plan had been compiled following the usual process and with an assumption that the Council would be operating on a business as usual basis. However, this assumption quickly proved to be incorrect. The Audit Team were initially diverted to assist with the Council's response to Covid and suspended planned Audit work to not divert front line services from their response to the pandemic and its effects on their service delivery. Managers and the s151 Officer have been consulted as part of the process to revise the Audit Plan.
- 5.2 The revised Audit Plan is attached as Appendix 1. This has had a significant reduction in terms of the number of audits included. It has been revised to focus on the key risk areas and main internal processes relating to Finance and HR which have seen changes to adjust to the remote working environment which we are currently operating in. In addition, an audit has been added reviews in relation to Covid response and spending on the Covid Cost centre which has been established to record additional expenditure relating to dealing with the pandemic.
- 5.3 The plan has accounted for the revised number of days available and a contingency budget has also been retained to allow for unforeseen issues and the need for the team to be flexible in the delivery of work.

Audit Work

- 5.4 As the Council moved to a response phase to deal with the Pandemic the work of the Internal Audit Section was severely curtailed, Internal Audit staff moved to working from home and were redeployed to assist in other areas such as verification checks for the Business Grant process and to staff the Community Hub that was created. In addition, most front-line departments were focussing on changing processes to work more remotely and to deliver the Council's response to the Pandemic.
- 5.5 Although traditional Audit work was suspended until August 2020 the section were still advising on changes to processes needed and were able to offer advice and opinions on the effectiveness of new processes that were created such as the Covid Grants to Business and Community Hub due to their involvement in them. The knowledge and information obtained will be used to help inform the Annual Audit Opinion.

Item No. 4.3

- 5.6 As it has not been possible to report quarterly so far this year, this report is a summary of the Internal Audit work up to 30th November 2020 and is a report of progress against the revised audit plan.
- 5.7 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers.
- 5.8 The table below gives a summary of the level of assurance for each of the audits completed in the quarter. More detailed information on each of the reports issued is contained in Appendix 2.

Number of Audits	Assurance	Definition
0	Substantial ✓	All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively. No action is required by management.
3	Partial ▲	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
1	Limited !	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	No Assurance ✘	One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	N/A	One piece of work was issued where it was not appropriate to issue an Assurance due to the narrow scope of the work – this was in relation to Pension Testing on behalf of Staffordshire County Council.

- 5.9 Appendix 3 lists the audits that were in progress but had not been completed to draft report stage by the end of the quarter.
- 5.10 No follow-ups have been completed up to the end of November, but plans are in place to recommence the follow-up of audits during the remainder of the year.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

None

6.5 Equality & Diversity

None

6.6 Climate Change

None

7 Appendices to the Report

Appendix 1: Revised Audit Plan for 2020-21

Appendix 2: Audits Completed by 30th November 2020

Appendix 3: Audits in Progress at 30th November 2020

Background Papers

None

Revised Audit Plan

Shared Service Audits

Audit Area	Head of Service
Housing Benefits	Financial Management
Council Tax	Financial Management
National Non-Domestic Rates	Financial Management
Council Tax Reduction Scheme - New arrangements 2020-21	Financial Management
Creditors	Financial Management
Pensions Assurance for the County	HR
Payroll	HR
Staff Expenses	HR

Cannock Chase DC Specific Audits

Audit Area	Head of Service
Review of Covid Response	Corporate
Environment and Healthy Lifestyles Major Projects	Environment and Healthy Lifestyles
Housing Void Management	Housing & Partnerships
Housing Property Services	Housing & Partnerships
Housing Allocations	Housing & Partnerships
Local Enterprise Partnership Arrangements / Combined Authority	Economic Development

IT Audits

Audit Area	Head of Service
Cyber and Network Security	Technology
IT Asset Management	Technology
Cloud Strategy and Security	Technology

Audits Completed by 30 November 2020

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Critical Information Systems not supported by IT	Technology★	Draft	3	Limited 	<ul style="list-style-type: none"> • There is no current IT Strategy to inform the decision-making processes when allowing Critical IT Systems which are not supported by IT to be purchased/developed • There is no current up to date risk assessment in place regarding the critical IT systems not supported by IT • Whilst the Procurement Regulations require IT to be consulted as part of all IT related procurements there are no controls in place to enforce/monitor this.
Land Charges	Governance	Final	3	Partial 	<ul style="list-style-type: none"> • Some searches were not returned in the required timescales due to delays from other departments. • Some datasets used by Land Charges do not always contain accurate data – the responsible departments need to review and cleanse the relevant data. The lack of a consistent data source for the Land charges team is a barrier to efficient processing of searches. • Some improvements in performance information would be beneficial including monitoring and reporting on performance of the departments who provide data to the Land Charges Team

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
IT Capacity Management & Resilience	Technology★	Final	7	Partial 	<ul style="list-style-type: none"> • There was no evidence of stress or load testing the network or remote access gateways to show it can cope with high demand in terms of users or processing of data or reporting on issues identified when the network was undergoing periods of high activity. • There are no documented procedures for hardware capacity management • There is no proactive monitoring of the Council's network
Debtors	Financial Management	Final	5	Partial 	<ul style="list-style-type: none"> • The Council has not finalised its Credit Control Policy and this remains in draft • The current system is unable to provide an effective periodic invoice process and requires a significant amount of manual intervention in the process. • The daily recovery process is reliant on one officer and there is no resilience in place should this person be unavailable due to leave/sickness etc. • The suppression of recovery on accounts is a manual process and there is no ability to set an end date where recovery would automatically recommence without further intervention. This means that unless reviewed and the suppression of recovery removed accounts could stay suppressed indefinitely. • There has been no permission sought from Cabinet to write-off irrecoverable debts over £2,500 which could mean that the debtor balance in the accounts is overstated.

★Services led by Stafford Borough Council as part of Shared Services

Audit in Progress

Audit	Head of Service
Environment and Healthy Lifestyles Major Projects	Environment and Healthy Lifestyles
Housing Void Management	Housing & Partnerships
National Non-Domestic Rates	Financial Management
Creditors	Financial Management
Pensions Assurance for the County	HR★
Payroll	HR★
Staff Expenses	HR★
Cyber and Network Security	Technology★

★Services led by Stafford Borough Council as part of Shared Services

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Report of:	Head of Governance & Corporate Services
Contact Officer:	Judith Aupers
Contact Number:	01543 464411
Report Track:	Cabinet: 10/12/21 Audit & Governance Committee: 08/02/21

**Audit & Governance Committee
8 February 2021
Strategic Risk Register**

1 Purpose of Report

- 1.1 To set out details of the Council's Strategic Risk Register as at 31 October 2020.

2 Recommendation(s)

- 2.1 That the Committee notes the draft strategic risk register and considers the progress made in the identification and management of the strategic risks.

3 Key Issues and Reasons for Recommendations

Key Issues

- 3.1 All strategic risks and associated action plans have been reviewed and the Council's risk profile is summarised in the table below:

Risk Status	Number of Risks at 31 May 2020	Number of Risks at 31 October 2020
Red (High)	4	4
Amber (Medium)	3	3
Green (Low)	0	0
TOTAL	7	7

Reasons for Recommendations

- 3.2 It is important risks are reviewed regularly and progress in delivering actions to reduce the risks are monitored.

4 Relationship to Corporate Priorities

- 4.1 This report supports the Council's Corporate Priorities as follows:
- (i) Risk management is a systematic process by which key business risks / opportunities are identified, prioritised, and controlled so as to contribute towards the achievement of the Council's aims and objectives.
 - (ii) The strategic risks set out in the Appendices have been categorised against the Council's priorities.

5 Report Detail

- 5.1 The Accounts & Audit Regulations 2015 state that:

“A relevant body must ensure that it has a sound system of internal control which:-

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.”

- 5.2 Risk can be defined as uncertainty of outcome (whether positive opportunity or negative threat). Risk is ever present and some amount of risk-taking is inevitable if the council is to achieve its objectives. The aim of risk management is to ensure that the council makes cost-effective use of a risk process that has a series of well-defined steps to support better decision making through good understanding of risks and their likely impact.

Management of Strategic Risks / Opportunities

- 5.3 Central to the risk management process is the identification, prioritisation and management of strategic risks / opportunities. Strategic Risks are those that could have a significant impact on the Council's ability to deliver its Corporate Priorities and Objectives.
- 5.4 A fundamental review of the strategic risks/opportunities facing the Council was undertaken in May to take account of the impact that the pandemic and the lockdown arrangements. The risk register has been monitored at intervals and actions progressed to manage the risk. The risk register has been updated as at 31 October 2020 and a summary is attached as **Appendix 1**.
- 5.5 The risk summary illustrates the risks / opportunities using the “traffic light” method i.e.

RED risk score 12 and above (action plan required to reduce risk and/or regular monitoring)

AMBER risk score 5 to 10 (action plan required to reduce risk)

GREEN risk score below 5 (risk tolerable, no action plan required)

- There has been no change in the number of strategic risks; there are 7 strategic risks of which 4 have been scored as high and 3 as medium.

5.6 Despite action having been taken to manage the risks there has been no change to the risk status. This is mainly due to the ongoing pandemic and many of the risks are outside the control of the Council.

5.7 Although there haven't been any changes to the risk status, one risk score has increased. Risk C4 which relates to the Council's key contractors remaining sustainable and continuing to provide value for money has increased from 15 to 20. The likelihood score has been increased to reflect the potential effect that the 2nd lockdown could have on the financial viability of IHL.

5.8 The detailed action plans for each risk are set out in the full strategic risk register attached at **Appendix 2**. This includes a progress update. The action plans are closely aligned to the Council's Recovery plans and will be kept under review.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Risk Management

The Risk Management implications are included within the body of the report and appendices.

6.5 Equality & Diversity

None

6.6 Climate Change

None

7 Appendices to the Report

Appendix 1 – Summary of Strategic Risks – 31 October 2020

Appendix 2 – Strategic Risk Register – 31 October 2020

Cannock Chase Council

Summary of Strategic Risks as at 31 October 2020

Risk No	Potential Risks	Risk Owner	Date Added to Register	Residual Risk Score at July 2020	Residual Risk Score at October 2020	Direction of Travel over period reported
Red Risks						
C1	The Council's financial stability is adversely affected in the short and medium term (Re-worded – previously risk ref. 18)	Head of Finance	May 2020	20 Red	20 Red	↔
C2	The economy of the District is adversely impacted (Re-worded – previously risk ref. 25)	Head of Economic Prosperity	May 2020	20 Red	20 Red	↔
C4	The Council's key contractors remain sustainable and continue to provide value for money (New Risk)	Head of Environment & Healthy Lifestyles	May 2020	20 Red	20 Red	↑
C5	The Council doesn't have sufficient officer capacity or financial resources to sustain delivery of essential services, key projects and support work on recovery (Re-worded – previously risk ref. 19)	Managing Director	May 2020	20 Red	20 Red	↔
Amber Risks						
C7	Failure to put in place safe working practices and social distancing measures to protect employees and the public (New Risk)	Head of Governance & Corporate Services	May 2020	10 Amber	10 Amber	↔
C3	Failure to work in partnership to sustain support to vulnerable residents post Covid-19 (New Risk)	Head of Housing & Partnerships	May 2020	9 Amber	10 Amber	↔

Item No. 5.6

Risk No	Potential Risks	Risk Owner	Date Added to Register	Residual Risk Score at July 2020	Residual Risk Score at October 2020	Direction of Travel over period reported
C6	<p>Failure to repel or recover from a Cyber-attack including targeted ransomware, malware, and Distributed Denial of Service (DDoS) attacks.</p> <p>The move to home working has increased the vulnerability to malware issues.</p> <p>Re-worded – previously risk ref. 23)</p>	Head of Technology	May 2020	10 Amber	10 Amber	↔

Key to Direction of Travel

↓	Risk has decreased	↔	Risk level unchanged	↑	Risk has increased
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Cannock Chase District Council – Strategic Risk Register as at 31 October 2020

Ref No: C1 Risk: The Council's financial stability is adversely affected in the short and medium term			
Risk Owner: Head of Finance		Portfolio: The Leader	
Consequences of Risk: <ul style="list-style-type: none"> • Unable to provide desired levels of service • Town Centre redevelopment proposals are impacted • Council size becomes too small to sustain a viable organisation 			
Links to Priorities: <ul style="list-style-type: none"> • Supporting Recovery – Financial work stream • Corporate PDP - Making the best use of limited resources – managing our people, money, and assets 			
Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: 20 – Red
Residual/Net Risk Score (i.e. with controls)	Likelihood: 4	Impact: 3	Total Score: 20 – Red
Controls in Place <ul style="list-style-type: none"> • Medium term financial plan in place • Annual Financial Plan and Medium-Term Financial Strategy to 2022/23 in place • The Revenue Budget for 2020/21 and indicative budgets for 2021/22 are effectively balanced with a deficit of £584,000 for 2022/23. • Working Balances maintained • Comprehensive Service Review being undertaken to re-align resources to Corporate Plan • Corporate Budget Monitoring • Evaluation of consultations on changes to government funding regimes 			

Actions Planned	Timescale / Person Responsible	Progress/Comments
Determine a Financial Recovery Strategy <ul style="list-style-type: none"> • Establish Recovery work stream • Agree Terms of Reference • Determine work programme 	Managing Director / Head of Finance	Terms of Reference and Work Programme Agreed
Monitor Financial Impact of COVID-19	Head of Finance	Monthly monitoring in place
Implement Interim Financial strategy	Head of Finance	Interim Financial Strategy considered by Recovery Overview Board and Cabinet
Update Financial Plan in relation to the deferment of 75% Business Rates Retention and Fair Funding by a year	Head of Finance	Scenarios developed reflecting potential treatment of growth and levy
Refresh Medium Term Financial Plan based upon alternative scenarios of short /medium- and long-term impact of in relation to external funding sources	Head of Finance	Financial Plan approved by Cabinet 12 th November 2020
Lobby MHCLG via MP/DCN and LGA re financial impact of COVID 19 on SBC	Managing Director / Head of Finance	Ongoing contact with MPs, DCN, West Midland Chief Executives, LGA and directly with ministers.
Determine feasibility of extending Business Rates Pool into 2021/22 Monitor impact of COVID-2019 on pool by authority on a month by month basis Liaise with S& SoT Business Rate Pool Members re options to maintain viable pool for 2021/2022 Prepare options report to Leaders and Chief executives	Head of Finance	Application to Pool submitted to MHCLG on the 23 October 2020. Member authorities will make a formal decision on retention of the pool following determination of the Reset position as part of the Provisional Local Government Settlement announcement for 2021-22.
Determine impact of Government proposals for key funding regime changes for 2022/23	Head of Finance	Ongoing

Actions Planned	Timescale / Person Responsible	Progress/Comments
Programme of service reviews to be undertaken to ensure that resources are aligned to the Council's priorities and are operating as efficiently as they can be		

Overall Progress Summary:

Impact of COVID-19 on CCDC for 2020-21 is estimated to be £2.9 million. Government support consists of un-ring-fenced grant of £1.586 million and an income guarantee scheme of a potential £0.541 million. Including new burdens funding a deficit of £0.645 million is likely.

The ongoing impact on income streams, and particularly IHLs recovery plan, will be the key factors in both the interim and Medium-Term Financial Recovery strategies.

Medium Term impact cannot be determined at this stage, with details of fundamental changes to Government Funding notably the implementation of 75% Business Rates Retention and Fair Funding and Business Rates Reset having been postponed to 2022/23

The key funding issues for 2021-22 relate to how business rates growth generated to date will be treated (whether the Business Rates Reset will be implemented in advance of 2022-23) and similarly what plans exist in relation to the reforms to New Homes bonus. Clarification on both these issues is still awaited.

Ref No: C2 Risk: The economy of the District is adversely impacted			
Risk Owner: Head of Economic Prosperity		Portfolio: Economic Development & Planning	
Consequences of Risk: <ul style="list-style-type: none"> • Increase in numbers of resident unemployed and economically inactive • Business failures and associated job losses • Reduced growth and prosperity for local residents • Decline of town centres / impact on major redevelopment proposals • NNDR / Council Tax Income does not grow 			
Links To Priorities: <ul style="list-style-type: none"> • Supporting Recovery – Economic work stream • Promoting Prosperity 			
Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: 20 – Red
Residual/Net Risk Score (i.e. with controls)	Likelihood: 4	Impact: 5	Total Score: 20 – Red
Controls in Place <ul style="list-style-type: none"> • Economic Prosperity Strategy • Economic Recovery Plan • Cannock Town Centre Development Prospectus • The Local Plan Review to identify future development opportunities • Proactive work with GBSLEP/SSLEP/West Midlands Combined Authority • Business Relationships work/promoting the District via the Economic Development function 			

Actions Planned	Timescale/ Person Responsible	Progress/Comments
<p>Business support</p> <ul style="list-style-type: none"> • Local implementation of national support measures: business rates holidays, Retail & Hospitality Grants, Small Business Grants, Discretionary Grants. • Encourage new inward investment and local business growth working in partnership with LEPs, Growth Hubs and County Council. 	<p>Head of Finance / Head of Economic Prosperity</p> <p>Head of Economic Prosperity</p>	<p>Significant progress has been made in distributing business support grants. Over 1,700 businesses have been paid grant with over £20m of funding allocated. Unused monies to be returned to MHCLG.</p> <p>Discretionary Fund closed at the end of August 2020. Chancellor announced on 5th November an additional package of financial support for businesses including extension of Coronavirus Job Retention Scheme (Furlough) and further business support grants to assist businesses directly affected by the pandemic and lockdown restrictions. Council will again be responsible for administration and distribution of these funds.</p> <p>Cabinet approved in September 2020 an application for Discretionary Business Rate Relief to support expansion of local company Super Smart Services Ltd – potentially creating c325 new jobs.</p>
Produce an Economic Recovery Plan	Head of Economic Prosperity	Terms of reference for Economic Recovery work stream has been agreed by the Recovery Overview Board.
Refresh the Economic Prosperity Strategy to take account of changing economic environment	Head of Economic Prosperity	<p>Impact of economic recession is currently being monitored by the Economic Recovery subgroup.</p> <p>Economic Prosperity Strategy refresh will set out the Council's plan to tackle the increase in unemployment and create a pipeline of new job opportunities. Work has started on the refresh but timescale for completion has been put back until early 2021 due to 2nd wave of COVID-19 and increasing economic uncertainty.</p>

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Revisit regeneration proposals for Cannock Town Centre in light of change to economic climate and reduced investor/developer confidence.	Head of Economic Prosperity	Officers are currently progressing technical work to examine feasibility of demolition of MSCP. Business case to be prepared and presented to Cabinet by spring 2021. Avon Road Car park – Cabinet have approved disposal of the site – terms currently being agreed.
Pro-actively work with WMCA, GBSLEP, SSLEP to promote the District and identify opportunities for growth during recovery phase	Head of Economic Prosperity	The Council continues to actively participate in the GBSLEP and SSLEP and Combined Authority and both organisations are leading on the region’s response to economic recovery. GBSLEP is supporting the District with a number of new initiatives including the £2m Pivot and Prosper Grant fund and ‘Click and Drop’ scheme targeted at independent retailers in Cannock, Hednesford and Rugeley town centres South Staffordshire College has secured £550k of funding from SSLEP to develop a Digital Skills Academy as part of £23m SSLEP allocation from MHCLG Getting Building Fund.
Revised Local Plan to be produced and delivered	Head of Economic Prosperity	Local Plan Review underway, however due to COVID-19 work has been delayed. Revised Local Development Scheme is being prepared and will be presented to Cabinet in January 2021. Officers are reviewing the potential impact of the Planning White Paper.

Overall Progress Summary:

The District’s economy is being severely impacted by the COVID-19 pandemic and lockdown and there is continued economic uncertainty due to the ongoing threat of COVID-19 and second national lockdown. The District’s unemployment rate has increased significantly since March 2020 and in the short-medium term is not expected to increase significantly due to the Government’s decision to extend the Furlough scheme until March 2021. The Council will need to refresh its Economic Prosperity Strategy to set out how the Council can support the economy, create new job opportunities, help businesses to survive and to support new businesses to start-up. Major investments such as the McArthurGlen Designer Outlet and Rugeley Power Station continue to be absolutely critical in supporting the prosperity and growth of the District.

Ref No: C3 Risk: Failure to work in partnership to sustain support to vulnerable residents post Covid-19			
Risk Owner: Head of Housing & Partnerships		Portfolio: Community Safety and Partnerships	
Consequences of Risk: Vulnerable people at risk of not receiving help and support therefore increasing issues such as:			
<ul style="list-style-type: none"> • Rough Sleepers displaced • Increased Reliance on Food Banks • Distribution of emergency food supplies • Increased Social Isolation • Increased number of Safeguarding Referrals • Increases in criminality – distraction burglary; cyber crime; county lines etc. • Increased incidents of anti social behaviour • Increased number of Domestic Abuse Incidents • Community Unrest & Tensions 			
Links to Priorities:			
<ul style="list-style-type: none"> • Supporting Recovery – Community work stream • Improving Community Wellbeing 			
Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: 20 – Red
Residual/Net Risk Score (i.e. with controls)	Likelihood: 3	Impact: 3	Total Score: 9 – Amber
Controls in Place			
<ul style="list-style-type: none"> • Community Vulnerability Hub Established • Weekly Community Safety Hub • Housing First Project with Spring Housing • Frequent Meetings with Food Banks & Voluntary Sector • Centralised Emergency Food Supply • Daily management of safeguarding referrals for both adults and children • Weekly multi agency Community Safety Hub meetings – proactive problem solving • Weekly threat and risk Community Safety and Police meeting – managing threat and risk to district (people / place / Covid–19 breaches) • Development of a weekly MARAC (Multi Agency Risk Assessment Conference) regarding high risk Domestic Violence cases • Community Wellbeing Partnership in place that can escalate any issues to Local Strategic Partnership • Commissioned services in place to support with mental health and substance misuse, antisocial behaviour, and domestic abuse. • Representation at County, Regional and National level multi-agency partnership meetings • Evictions currently suspended 			

Actions Planned	Timescale/ Person Responsible	Progress/Comments
<p>Group being set up to support the Community Recovery work stream – this will look at:</p> <ul style="list-style-type: none"> • Lessons learnt • How the level of support can be sustained going forward • Planning for the future and development of an action plan 	Head of Housing & Partnerships	<p>Lessons Learnt Report Completed</p> <p>CCSN have confirmed that the Group is no longer active and will be working in a signposting capacity. CCDC has taken on the role of Anchor Organisation across the District.</p>
<p>Extend commissioned services that provide lower level support to individuals experiencing drugs and alcohol use and mental health; outreach support for anti-social behaviour; and sanctuary provision for domestic abuse</p>	Head of Housing & Partnerships	<p>Human Kind Charity – Drug & Alcohol Support - Commissioned by SCC</p> <p>Exploring options to fund a Specialist Mental Health Worker (Housing Options Funding)</p>
<p>Supporting Vulnerable Residents – Follow up telephone calls</p>	Head of Housing & Partnerships – May to June 2020	<p>400+ calls completed (28.05.2020)</p> <p>3000+ calls completed</p> <p>Project complete</p>
<p>Housing 1st Project – Secure permanent accommodation for the Rough Sleepers</p>	Strategic Tenancy Services Manager	<p>2 Year Contract Awarded to Spring Housing – accommodation secured for 3 Rough Sleepers (01.06.2020)</p> <p>4 Rough Sleepers Rehoused</p> <p>Accommodation secured for a further 1 Rough Sleeper</p> <p>Housing First Project to be extended – Application for Next Steps Accommodation Programme Funding Bid Successful - £115k</p>

Actions Planned	Timescale/ Person Responsible	Progress/Comments
To maximise the benefit of any legacy from the increase in voluntary activity in the local community	Head of Housing & Partnerships	On-going meetings scheduled – work with Support Staffordshire on social prescribing Cabinet has approved funding for Support Staffordshire to engage with the Voluntary Sector – project starts 01.12.2020
Work in conjunction with Inspiring Healthy Lifestyles to support individuals and communities to mitigate the impact of Covid-19 on health and well being	Head of Environment and Healthy Lifestyles	On-going – family activity packs have been delivered to households Voluntary Groups – Summer Recess SPACE Project given go-ahead
Further Development of the MARAC	On-Going (PCSCCTV Manager) Staffordshire Police	The Community Safety Team (CST) continue preparatory work around the new weekly local MARAC - an area of business which will become key as the lockdown starts to ease and the level of hidden domestic abuse becomes more apparent On track for Weekly MARAC to commence in August 2020 Complete
Establishing a strong link with the Community Vulnerability Hub	On-Going (PCSCCTV Manager)	CST will be the point of contact for any officers making safe and well calls where they feel that there may be a safeguarding concern. The CST will do the necessary re safeguarding be it a referral to the Community Safety Hub or signposting to safeguarding services. The Community Vulnerability Hub was mothballed 17 th July 2020. Re-established on a smaller scale in November 2020 to assist Clinically Extremely Vulnerable People to register for assistance etc.

Overall Progress Summary:

First lockdown - the Community Vulnerability Hub was mobilised within days of the lockdown. Following the initial response stage and with the end of Shielding demand had considerably dwindled for this level of intensive support. A part time role within the Housing Department has been approved to manage the high level of complex cases that have emerged prior to and during lock-down. The Foodbanks have reported no increase in the demand for food and this may be due to the Governments funding of School Meals. Moving forward meetings with the voluntary sector have been scheduled bi-monthly with the agreement that should there be a spike or local lockdown the groups are willing to remobilise. Internally over 50 staff members have supported the hub.

Second Lockdown – Additional call handlers assigned to support the Clinically Extremely Vulnerable Residents (4,200+) to register for on-line food delivery slots and low-level support. The HOS has established links with Cannock and Hednesford Salvation Army and Rugeley Community Church working in conjunction with Support Staffs are seen to be the emerging “Anchor Organisations” within the District. The local list of Vulnerable Residents (incl. CEV) had been refreshed (7,000+ residents).

Ref No: C4 Risk: The Council's key contractors remain sustainable and continue to provide value for money			
Risk Owner: Head of Environment & Healthy Lifestyles		Portfolios: Culture & Sport and Environment & Climate Change	
Consequences of Risk: <ul style="list-style-type: none"> • Potential for an individual contract failure resulting in a service not being delivered • Reputational damage and complaints • Financial loss 			
Links to Priorities: <ul style="list-style-type: none"> • Supporting Recovery – Organisational work stream 			
Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: 20 – Red
Residual/Net Risk Score (i.e. with controls)	Likelihood: 4	Impact: 5	Total Score: 20 – Red
Controls in Place <ul style="list-style-type: none"> • Regular contact with key personnel for each contractor • Contract management • Any key issues are discussed with Leadership Team and Members as appropriate • Discussions with other authorities who have the same or similar contracts 			

Actions Planned	Timescale / Person Responsible	Progress/Comments
Service delivery of key contracts is being monitored and managed	Head of Environment & Healthy Lifestyles Waste & Engineering Services Manager Ongoing during response and recovery as required	Regular contact is being maintained with contractors to resolve any issues
Financial assistance to be provided where appropriate to support key contractors	Head of Finance Head of Environment & Healthy Lifestyles Ongoing during response and recovery as required	Payments being made in advance to assist with cash flow and 20% top up agreed by Cabinet for furloughed staff up until the end of June 2020. Discussions are ongoing between the Council and key IHL officers to identify full financial impact and develop sustainable recovery plans. The 2 nd lockdown is likely to have a significant impact on the financial viability of IHL. This has led to the review and increase of the risk score
Contact with other Councils, Local Government Association and Sport England	Heads of Service Contracts and Procurement Manager Ongoing during response and recovery as required	Contact is being maintained with other Councils that have the same type of contracts and or contractors to share information on issues and support provided Interest logged on 10 th April with Sport England to receive any available support/consultancy to ensure that Council's, Leisure Trusts and Operators survive this period of uncertainty. Sport England have been contacted again on 10 th November 2020 with regard to possible support

Actions Planned	Timescale / Person Responsible	Progress/Comments
Lobbying of Ministry of Housing, Communities and Local Government (MHCLG) via Members of Parliament, District Council Network and Local Government Association re financial impact of COVID 19 on CCDC	Managing Director Head of Finance Ongoing during response and recovery as required	Information provided regarding the financial impact of COVID-19 on contracted services Managing Director and Head of Finance are continuing to lobby local MP. Letter to MP 16 th October 2020 and further contact made on 10 th November 2020
Monitoring Government guidance on COVID-19 on services that can be delivered as lockdown is eased	Heads of Service Service Managers	Recovery plans being developed by Contractors in consultation with the Council to respond to further lifting of restrictions. Golf course re-opened 23 May 2020. Chase Leisure Centre (Dry side) re-opened 25 th July 2020 and Swimming Pool 1 st August 2020 Rugeley Leisure Centre (Dry side) re-opened 1 st August 2020 AGP at Bradbury re-opened from 10 th August 2020 Recovery progress has been hampered by 2 nd Lockdown 5 Nov to 2 nd December.

Overall Progress Summary:

Regular contact is being maintained with the Council's key contractors. Recovery plans are being developed by Contractors, in consultation with the Council, to respond to further lifting of restrictions and re-instate services where possible. Management of this risk is largely outside the control of the Council as it is a national issue and depends on the Government's plans for easing lockdown and support to businesses. However, the Council is working with its contractors to support them during lockdown and in implementing their recovery plans.

Progress has been made with regard to the safe re-opening of some of the key leisure facilities. However, this recovery and the risk of future sustainability has been impacted by the 2nd lockdown, resulting in a reassessment and increase of the current risk score.

In respect of the Waste Contract all services are being provided and discussions are ongoing with the Regional and Local Contract Managers to monitor and resolve any local issues around contaminated waste levels etc. Soft market testing has been undertaken with other Staffordshire Councils in respect of waste recycling contracts.

Ref No: C5 Risk: The Council doesn't have sufficient officer capacity or financial resources to sustain delivery of essential services, new Covid19 Government policies, key projects, and support work on recovery			
Risk Owner: Managing Director		Portfolio: The Leader	
Consequences of Risk: <ul style="list-style-type: none"> • The Council's response during a declared Major Incident is not effective; • Services and projects are not delivered and this impacts on residents / the public; • The requirements of any new Covid19 related Government policies not implemented effectively; • Employees wellbeing affected, increase in absence due to stress 			
Links to Priorities: <ul style="list-style-type: none"> • Supporting Recovery – economic, organisational, community work streams • All Council Priorities 			
Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: 20 – Red
Residual/Net Risk Score (i.e. with controls)	Likelihood: 3	Impact: 5	Total Score: 15 – Red
Controls in Place <ul style="list-style-type: none"> • Regular assessment of implications of Government / MHCLG Covid19 related policy announcements as set out in Coronavirus Bulletins and Ministerial Letters for action. • Additional funding secured for Covid19 related policies e.g. Test and Trace, resettling rough sleepers etc. • Suspension of lower priority activities, meetings, and projects. • Management capacity issues are monitored by Leadership Team; officer time reallocated to more important duties as required e.g. Vulnerability Hub. Day to day operational capacity issues addressed by managers e.g. sickness absence. • Regular monitoring of priorities • Provision of support to employees especially as majority remain working remotely. 			

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Regular assessment of implications of Government / MHCLG Covid19 related policy announcements as set out in Coronavirus Bulletins and Ministerial Letters for action	Leadership Team	This is an ongoing daily activity at the current time due to the volume of Government policy announcements.
Review of existing priorities and PDP's in light of Recovery Planning work	Leadership Team / Cabinet	The PDP's for 2020/21 have been reviewed and revised PDPs approved by Council. A review of Corporate Priorities is being undertaken as part of the development of a new corporate plan. Engagement is currently in progress on a new set of priorities
Review of essential services and operational work plans to re-prioritise work	Heads of Service	Ongoing. Reviewed as part of move back into lockdown
Where necessary, considering whether resources from other parts of the Council can be transferred for a period.	Leadership Team	Ongoing operational decisions
Management review	Managing Director	A review of management is planned for 2020/21

Overall Progress Summary:

Although restrictions were eased over the summer this brought fresh challenges for capacity with staff being encouraged to take leave and have a rest at the same time as the Council was trying to restore its own service delivery and support local businesses with re-opening. As we move into the autumn with COVID cases increasing and new restrictions introduced, the Council is now back into response but is also trying to balance this with maintaining work on recovery wherever possible

Work from the response and recovery phases is having an ongoing impact on officer capacity and continues to place considerable and continuing pressure on key service areas. Officer capacity continues to be reviewed and work prioritised.

Ref No: C6 Risk: **Failure to repel or recover from a Cyber-attack including targeted ransomware, malware, and Distributed Denial of Service (DDoS) attacks. The move to home working has increased the vulnerability to malware issues.**

Risk Owner: Head of Technology Portfolio: Corporate Improvement

Consequences of Risk:

- Data, Systems and Applications inaccessible
- Inability to deliver Council services
- Cybercrime/ Fraud/ Ransom demands/ Financial harm
- Reputational damage locally and nationally
- Data Loss & breach of Data Protection Act (DPA)
- Financial Loss

Links to Priorities:

- Supporting Recovery – Organisational work stream

Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: 20 – Red
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Residual/Net Risk Score (i.e. with controls)	Likelihood: 3	Impact: 3	Total Score: 9 – Amber
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Controls in Place

- Information Risk Management Regime – Assess the risks to our information assets, effective governance structure, Leadership Team engagement with cyber risk, produce supporting information management policies.
- Secure configuration – Corporate policies and processes to develop secure baseline builds
- Network Security – Protection and secured perimeter of external security threats and untrusted networks
- Managing user privileges – All users of ICT systems provided with privileges suitable for their role
- User education and awareness – Security policies that describe acceptable and secure use of ICT assets
- Incident management – Incident response and disaster recovery capabilities that address the full range of incidents that can occur
- Malware prevention – Produce policies that directly address the business processes (such as email, web browsing, removable media, and personally owned devices)
- Monitoring – Established monitoring taking into account previous security incidents and attacks. Annual IT Health Check and penetration testing conducted by a Council of Registered Ethical Security Tester (CREST)/Communications-Electronics Security Group (CESEG) Listed Advisor Scheme (CLAS) - accredited Government Communication Headquarters (GCHQ) approved consultants.
- Removable media controls – Produce removable media policies that control the use of removable media for the import and export of information
- Home and mobile working – Assess the risks to all types of mobile working including remote working and develop appropriate security policies

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Information Risk Management- Continuous review and work on our information risk management regime	Ongoing / Head of Technology	Policies under review.
Monitoring – External and Internal checks. Threat and vulnerability assessment and remediation including Annual IT Health Check by CLAS approved consultant with remedial work carried out	Ongoing / Head of Technology	Annual Health check completed in August 2019. Follow-up check is planned for September 2020.
Application Security Assessment and Remediation action taken	Annually Head of Technology	The health check will produce an action plan to feed into this.
Limit the access to critical systems and data by non-corporate devices.	January 2021 Head of Technology	During 2020 we have been able to increase the number of corporate laptops that access the internal systems.
Exploring options to improve security for sharing information with external partners	Ongoing / Head of Technology	Further use of Teams to provide secure access to data for our partners.
The move to home working has increased the vulnerability to malware issues. The use of cloud technology has reduced the likelihood due to the data being segregated across systems and devices.	Ongoing / Head of Technology	Most of the email mailboxes are now held in the cloud. Data files will also be moved during 2021/22

Overall Progress Summary:

Work has been completed and actions are in progress. However, the environment means that new risks and challenges are always developing and attacks are becoming more sophisticated.

Ref No: C7 Risk: Failure to put in place safe working practices and social distancing measures to protect employees and the public			
Risk Owner: Head of Governance & Corporate Services		Portfolio: Corporate Improvement and Town Centre Regeneration	
Consequences of Risk: <ul style="list-style-type: none"> • Failure to meet health and safety standards could lead to prosecution. • Unable to restore some services. • Risk of infection to employees, partners/contractors in the workplace and the public • Employees refuse to return to work 			
Links to Priorities: <ul style="list-style-type: none"> • Supporting Recovery – Organisational work stream 			
Gross Risk Score (i.e. without controls)	Likelihood: 4	Impact: 5	Total Score: 20 – Red
Residual/Net Risk Score (i.e. with controls)	Likelihood: 2	Impact: 5	Total Score: 10 – Amber
Controls in Place <ul style="list-style-type: none"> • Health & Safety Policies and Practices both existing and revised • Health & Safety controls (including risk assessment) in place in line with Government Guidance and best practice • Health & Safety Advice provided • Provision of Occupational Health advice as required • Promotion of wellbeing, signposting to information, mental health champions 			

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Organisational Recovery work stream to oversee the development of a co-ordinated approach to ensuring the safe return on employees to the workplace	Head of Governance & Corporate Services	Process established and guidance issued to managers to support initial return to the workplace.
Workplace risk assessments to be completed in line with HSE and Government Guidelines and action plans developed	Corporate Asset Manager	Workplace risk assessments have been completed for all key Council sites
Role based risk assessments to be completed in line with HSE and Government Guidelines, employee guidance prepared, and employees briefed before returning to work	Service Managers	Guidance has been issued to managers and role-based risk assessments are being completed, as required, and agreed with the Health & Safety Officer and the Trade Unions
Continue to monitor and review guidance issued by Government and communicate to managers as required	Chief Internal Auditor & Risk Manager	Work is ongoing to monitor and update guidance for managers in accordance with changes made regarding local and national restrictions
Consult with trade unions and employees as required to ensure a joined-up approach is agreed and accepted	Head of Governance & Corporate Services and HR Manager	Process has been established and is working well
Risk assessments to be published on website	Chief Internal Auditor & Risk Manager	Risk assessments are being published on the Council's website
Review content of Health & Well-being Strategy to take account of impact of COVID-19 on the workforce	HR Manager	This is being considered as part of the Organisational Recovery work. HR have put in place a range of support for employees and managers to aid mental health and wellbeing.

Overall Progress Summary:

Risk assessments were prepared at the outset of the first lockdown and continue to be reviewed and updated to reflect the latest Government Guidance. Workplace risk assessments have been completed for all key sites. A number of role-based risk assessments were completed to allow employees to return to work safely following the easing of the first lockdown. A process is in place for all risk assessments to be agreed with the Health & Safety Officer and consultation undertaken with Trade Union reps. Guidance on PPE has been issued and reflected in risk assessments; this is kept under review and updated in line with any changes in Government guidance.

Whilst much work has been done to comply with COVID secure guidance and ensure the safety of employees and the public, due to the nature of the pandemic and the recent increase in cases, it is not considered prudent at this time to reduce the risk score.

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Report of:	Head of Governance & Corporate Services
Contact Officer:	Judith Aupers
Contact Number:	01543 464 411
Report Track:	Audit & Gov Committee: 08/02/21

Audit & Governance Committee
8 February 2021
Annual Governance Statement – Progress Report

1 Purpose of Report

- 1.1 To present to the Audit & Governance Committee for information progress in addressing the significant governance issues identified in the Annual Governance Statement for 2019-20.

2 Recommendation(s)

- 2.1 That the Committee notes the contents of the progress report on the Annual Governance Statement for 2019-20

3 Key Issues and Reasons for Recommendations

- 3.1 Not all of the actions are yet due for completion, however a summary of the progress made against each of the significant governance issues as at 31 December 2020 is given at Appendix 1.

- 3.2 For the 7 significant governance issues identified in the AGS progress can be summarised as follows:

• 3	Significant progress is being made to deliver the action or has been completed (status shown as green tick Appendix 1);
• 4	Some progress is being made to deliver the action (status shown as amber triangle on Appendix 1);
• 0	No action has yet been taken (status shown as red cross on Appendix 1).

4 Relationship to Corporate Priorities

4.1 This report supports the delivery of all the Council's Corporate Priorities.

5 Report Detail

5.1 The Council has a statutory responsibility to undertake an annual review of the effectiveness of its governance arrangements, which includes the system of internal control and to publish an "annual governance statement" with the annual accounts.

5.2 In reviewing the effectiveness of the governance arrangements, the Council has to identify any 'significant governance issues' and what action will be taken to address these. There is no single definition as to what constitutes a 'significant governance issue' and judgement has to be exercised. Factors used in making such judgements include:-

- the issue has seriously prejudiced or prevented achievement of a principal objective;
- the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another service area;
- the issue has led to a material impact on the accounts;
- the Chief Internal Auditor has reported on it as significant, for this purpose, in the Internal Audit Annual Report;
- the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the Council;
- the issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

5.3 The Annual Governance Statement (AGS) for 2019-20 was approved by the Audit & Governance Committee on 29 June 2020.

5.4 It was agreed that the Audit & Governance Committee would receive monitoring reports on progress in addressing the significant governance issues identified in the AGS, and this is the mid-year progress report

5.5 Details of the progress made against each of the significant governance issues as at 31 December 2020 is given at Appendix 1 and overall performance is summarised in the table at 3.2.

5.6 Progress at the end of December is broadly as expected with work in progress or completed on all 7 issues.

6 Implications

6.1 Financial

None.

6.2 Legal

None.

6.3 Human Resources

None.

6.4 Risk Management

None.

6.5 Equality & Diversity

None.

6.6 Climate Change

None.

7 Appendices to the Report

Appendix 1: Significant Governance Issues – Progress Report as at 31 December 2020.

Progress Report as at 31 December 2020
On the Significant Governance Issues
From the Annual Governance Statement for 2019-20

No.	Issue & Action	Lead Officer & Timescale	Progress/Comments	Status
1	<p>Development of Recovery Strategy re Coronavirus Pandemic</p> <p>A Recovery Strategy is being prepared to deal with the effects of COVID-19 on the Borough. The strategy will focus on 4 key areas:</p> <ul style="list-style-type: none"> • Economic recovery; • Financial recovery; • Community recovery; and • Organisational recovery. 	<p>Leadership Team</p> <p>Ongoing</p>	<p>A recovery strategy and action plan has been prepared. Progress in delivering the strategy is being reported on quarterly to Cabinet and the respective Scrutiny Committees. A new Corporate Plan has been prepared and this includes the ongoing recovery work</p>	
2	<p>Financial Stability</p> <p>The Council has incurred both additional expenditure and a material loss of income from fees and charges etc. Despite receiving some additional grant funding, the pandemic is likely to have a significant impact on the Council's finances both in the current year and for the foreseeable future particular as a result of the impact on the Local Economy. This compounds the ongoing financial uncertainty regarding the future funding regime for local government.</p> <p>This will be addressed by:</p> <ul style="list-style-type: none"> • Monitoring the Financial Impact of COVID-19; 	<p>Managing Director and Head of Finance</p> <p>Ongoing</p>	<p>Monitoring of the Financial impact of Covid-19 is ongoing. The potential impact of the pandemic has been reflected in the Financial Plan approved by Cabinet (12 November) and the draft Budget being considered by Cabinet (28 January 2021). As a result of the Provisional Local Government Finance Settlement (17 December 2020) a balanced budget exists for 2021-22, albeit by the use of reserves, however the medium term</p>	

No.	Issue & Action	Lead Officer & Timescale	Progress/Comments	Status
	<ul style="list-style-type: none"> • Implementing an Interim Financial strategy; • Refreshing the Medium Term Financial Plan; and • Determining a Financial Recovery Strategy 		financial stability of the Council is dependent upon changes arising from the future funding regime for local government.	
3	<p>The Economy of the District</p> <p>The pandemic will have a considerable impact on the economy of the District and the Council's plans will need to be reviewed to reflect this. The key actions are:</p> <ul style="list-style-type: none"> • Produce an Economic Recovery Plan; • Refresh the Economic Prosperity Strategy to take account of changing economic environment; and • Pro-actively work with WMCA, GBSLEP to promote the District and identify opportunities for growth during recovery phase. 	Head of Economic Prosperity	An Economic Recovery Plan has been produced. The refresh of the Economic Prosperity Strategy has been put back so that the effect of successive lockdowns and ongoing Government restrictions can be better assessed.	
4	<p>The Council's Key Contractors</p> <p>The lockdown arrangements have resulted in uncertainty for the Council's key contractors and their ability to remain sustainable and continue to provide value for money.</p> <p>The Council is working to support them during lockdown, providing financial assistance and in implementing their recovery plans.</p>	Head of Environment & Healthy Lifestyles Ongoing	Work is ongoing to support IHL as the key contractor affected by successive lockdown's and restrictions on service delivery. A bid to the National Leisure Recovery Fund has been submitted for further funding to support to IHL (December 2020 to March 2021).	

No.	Issue & Action	Lead Officer & Timescale	Progress/Comments	Status
5	<p>Officer Capacity & Financial Resources</p> <p>With the delivery of essential services, key projects and work on recovery resources are stretched. This is being managed through:</p> <ul style="list-style-type: none"> • Regular assessment of implications of Government / MHCLG Covid19 related policy announcements as set out in Coronavirus Bulletins and Ministerial Letters for action; • Review of existing priorities and PDP's in light of Recovery Planning work; and • Review of essential services and operational work plans to re-prioritise work. 	<p>Managing Director</p> <p>Ongoing</p>	<p>The PDPs for 2020/21 were reviewed and a number of projects/ actions have been rescheduled for 2021/22.</p> <p>Throughout the pandemic Leadership Team has regularly assessed the implications of Government announcements and reprioritised services and resources accordingly. So far, this has been managed effectively but as we enter a third national lockdown there are concerns about the resilience of services.</p>	
6	<p>The return to normal democratic processes</p> <p>The lockdown affected the normal committee meeting cycle, with a number of meetings cancelled/postponed, and led to the introduction of virtual meetings.</p> <p>A settled calendar of meetings will be re-instated as lockdown is lifted. This includes consideration as to holding full Council meetings and supporting other functions such as Scrutiny.</p>	<p>Head of Governance & Corporate Services</p> <p>Ongoing</p>	<p>A full calendar of meetings has now been resumed albeit that meetings are being held virtually</p>	
7	<p>Implications arising from EU Exit</p> <p>There is considerable uncertainty about the effect of Brexit on legislation as it affects the Council.</p> <p>The effects of Brexit on legislation and how it affects the Council will be monitored and appropriate action taken to ensure continuing compliance.</p>	<p>All Heads of Service</p>	<p>Now that the terms of the UK's exit from the EU have been agreed, Heads of Service are monitoring Government updates and assessing the implications for the Council and service delivery</p>	

Key to Status Indicators:

Status	Description
	The action is making significant progress towards completion or has been completed
	The action is making some progress towards being completed
	Work has not commenced on the action

Report of:	Head of Finance
Contact Officer:	Bob Kean
Contact Number:	01543 464 334
Portfolio Leader:	Leader of the Council
Key Decision:	No
Report Track:	Cabinet: 28/01/21 Audit & Gov Committee: 08/02/21 Council: 10/02/21

Audit & Governance Committee

8 February 2021

Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy and Capital Strategy 2021/22

This report was considered by Cabinet on 28 January 2021, and the recommendations detailed in paragraph 2.1 are due to be considered at the Budget Council meeting scheduled for 10 February 2021.

1 Purpose of Report

1.1 This report is presented to obtain the Council's approval to:-

- Prudential and Treasury indicators - setting of indicators to ensure that the capital investment plans of the Council are affordable, prudent and sustainable;
- The Minimum Revenue Provision (MRP) Policy;
- Treasury Management Strategy Statement for 2021/22 - to set treasury limits for 2020/21 to 2022/23 and to provide a background to the latest economic forecasts of interest rates;
- Annual Investment Strategy 2021/22 - to set out the strategy of investment of surplus funds.

2 Recommendation(s)

2.1 To approve:-

- (a) The Prudential and Treasury indicators;
- (b) The MRP Policy Statement;
- (c) The Treasury Management Policy;

- (d) The Annual Investment Strategy for 2021/22;
- 2.2 To note that indicators may change in accordance with the final recommendations from Cabinet to Council in relation to both the General Fund/ Housing Revenue Account Revenue Budgets and Capital Programmes.

3 Key Issues and Reasons for Recommendations

Key Issues

- 3.1 The Treasury Management Function essentially consists of:
- In the short term ensuring that the cash flow of a Balanced Revenue Budget is adequately planned with surplus monies invested in accordance with the risk appetite of the Council.
 - In the long term funding the capital plans of the authority and in particular managing the debt of the Council and any new borrowing requirement.
- 3.2 The Governance arrangements are detailed in the various policies and strategies as detailed in the report together with the setting of Indicators in accordance with the Capital Financing Prudential Code.

Reasons for Recommendations

- 3.3 The Council is required to approve its treasury management, investment and capital strategies to ensure that cash flow is adequately planned and that surplus monies are invested appropriately.

4 Relationship to Corporate Priorities

- 4.1 Treasury management and investment activity links in with all of the Council's priorities and their spending plans.

5 Report Detail

Background

- 5.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 5.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term

cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.3 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.

5.4 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.”

5.5 This authority has not engaged in any commercial investments and has no non-treasury investments.

Reporting Requirements

5.6 **Capital Strategy** - The CIPFA 2017 Prudential and Treasury Management Codes required all local authorities to prepare a capital strategy report which will provide the following:

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

5.7 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.

5.8 The capital strategy approved on the 7 February 2019 covers the period 2018/22 and is unchanged.

5.9 **Treasury Management reporting** - The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals:-

5.10 **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

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- an Investment Strategy (the parameters on how investments are to be managed).
- 5.11 **A mid year treasury management report** - This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- 5.12 **An annual treasury report** - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- 5.13 **Scrutiny** - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.
- 5.14 The Council has adopted the following reporting arrangements in accordance with the requirements of the CIPFA Code of Practice:-

Area of Responsibility	Council/Committee	Frequency
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy	Full council	Annually in January/February each year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy/Monitoring of Prudential Indicators	Full council	Mid year
Treasury Management Strategy/ Annual Investment Strategy/ MRP policy – updates or revisions at other times	Full council	As required
Annual Treasury Outturn Report	Audit and Governance Committee and Council	Annually by 30 September after the end of the year
Scrutiny of treasury management strategy	Cabinet	Annually in January / February before the start of the year

Treasury Management Strategy for 2021/22

- 5.15 The strategy for 2021/22 covers two main areas:-

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;

- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

5.16 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.

Training

5.17 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. Training for members is currently being reviewed and will be arranged as required.

5.18 The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

5.19 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

5.20 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Capital Prudential Indicators 2021/22 - 2023/24

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

Capital expenditure

5.22 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, which include a review of current schemes, but to note these may change as part of the scrutiny process and finalisation of the Budget.

5.23 Any change to the forecast bid will be separately identified in future Budget Reports and reflected in this indicator as reported to full Council.

Capital expenditure	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	Earmarked £'000
Corporate Improvement	69	-	-	-	-	-
Environment	198	341	148	90	80	246
Culture & Sport	103	1,911	1,628	-	-	674
Economic Development	141	212	206	-	-	5,645
Housing	457	507	1,842	926	926	506
Health & Wellbeing	-	-	-	-	-	-
Town Centre Regeneration	104	221	51	-	-	-
Leader of the Council	-	350	-	-	-	-
Crime & Partnerships	41	-	-	--	-	67
Non –HRA	1,113	3,542	3,875	1,016	1,006	7,138
Non – HRA programme estimate	-	-	269	3,514	3,355	(7,138)
HRA	2,678	4,286	8,764	5,432	5,086	11,740
HRA programme estimate	-	-	1,500	5,800	4,440	(11,740)
Total	3,791	7,828	14,408	15,762	13,887	

5.24 **Other long term liabilities.** The financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments.

- 5.25 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.

Capital expenditure	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	Unallocated £'000
Total Spend	3,791	7,828	14,408	15,762	13,887	
Financed by:						
Capital Receipts	1,314	2,576	2,448	4,527	3,436	
Capital grants/ contributions	616	2,047	3,769	1,522	1,304	
Major Repairs	1,820	2,776	5,113	9,713	5,185	
Revenue	41	429	56	-	3,962	
Total Financing	3,791	7,828	11,386	15,762	13,887	
Net financing need for the year	-	-	3,022	-	-	

- 5.26 The capital financing of the programme will similarly be reviewed as part of the Budget process and any change will be separately identified in future Budget Reports and reflected in this indicator.

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

- 5.27 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- 5.28 The CFR does 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 assets life and so charges the economic consumption of capital assets as they are used.
- 5.29 The CFR includes any other long-term liabilities (e.g finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £0.674 million of finance leases within the CFR.

5.30 The Council is asked to approve the following CFR projections, subject to any changes arising from the budget process:-

	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital Financing Requirement					
CFR – non housing	9,594	9,119	8,650	8,194	7,972
CFR - housing	82,494	82,486	85,499	85,491	85,482
Total CFR	92,088	91,605	94,149	93,685	93,454
Movement in CFR	(1,365)	(483)	2,544	(464)	(231)
Movement in CFR represented by					
Net financing need for the year	-	-	3,022	-	-
Repayment of borrowing	(875)	-	-	-	-
Less MRP and other financing movements	(490)	(483)	(478)	(464)	(231)
Movement in CFR	(1,365)	(483)	(478)	(464)	(231)

Core funds and expected investment balances

5.31 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed on the following page are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Earmarked Fund balances / reserves					
General Fund	15,977	15,253	13,970	12,888	12,593
General Fund working balance	1,099	1,294	1,294	(65)	(1,815)
HRA	8,445	10,389	11,664	12,921	10,133
HRA working balance	1,663	1,775	1,866	1,909	1,970
Sub Total	27,184	28,711	28,794	27,653	22,881
Capital receipts					
GF	7,408	6,798	6,216	3,208	306
HRA	2,047	2,306	950	1	1
Sub Total	9,455	9,104	7,166	3,209	307
Provisions	2,077	2,077	200	200	200
Major Repairs Reserve	4,509	6,004	5,308	254	-

Year End Resources £m	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital Grants Unapplied	2,181	2,312	1,030	713	354
Other - grants receipts in advance	1,036	1,410	1,119	1,119	1,119
Total core funds	46,442	49,618	43,617	33,148	24,8691
Working Cashflow requirement	133	(3,000)	(3,000)	(3,000)	(3,000)
Under/over borrowing	9,809	9,549	9,299	9,058	8,827
Expected investments	36,500	43,069	37,318	27,090	19,034

*Working cashflow requirement shown are estimated year-end.

Minimum revenue provision (MRP) policy statement

- 5.32 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).
- 5.33 MHCLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:-
- 5.34 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess MRP for 2009/10 onwards in accordance with the recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
- 5.35 Under powers delegated to the Section 151 Officer, the Council's annual MRP provision for expenditure incurred after 1 April 2008 and before 31 March 2017 will be based on the uniform rate of 4% of the Capital Financing Requirement. The Council's annual MRP provision for expenditure incurred on or after 1 April 2017 will be based on the asset life method i.e. the provision will be calculated with reference to the estimated life of the assets acquired, in accordance with the regulations.
- 5.36 MRP will be applicable from the year following that in which the asset is brought into operation.
- 5.37 Repayments included in finance leases are applied as MRP.
- 5.38 The Council are satisfied that the policy for calculating MRP set out in this policy statement will result in the Council continuing to make prudent provision for the repayment of debt, over a period that is on average reasonably commensurate with that over which the expenditure provides benefit.

- 5.39 The Section 151 Officer will, where it is prudent to do so, use discretion to review the overall financing of the Capital Programme and the opportunities afforded by the regulations, to maximise the benefit to the Council whilst ensuring the Council meets its duty to charge a prudent provision.
- 5.40 **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), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. The Council has previously not made any MRP overpayments.

Affordability prudential indicators

- 5.41 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:-

Ratio of financing costs to net revenue stream

- 5.42 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Non HRA	1.9	3.6	3.2	2.2	0.1
HRA	16.56	16.74	16.83	16.64	16.32

HRA ratios

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt £'000	81,605	81,605	84,627	84,627	84,627
HRA revenues £'000	19,394	19,385	19,648	19,900	20,294
Ratio of debt to revenues	4.2	4.2	4.3	4.3	4.2
Number of HRA dwellings	5,115	5,095	5,095	5,069	5,043
Debt per dwelling £	15.95	16.02	16.61	16.70	16.78

Borrowing

- 5.43 The capital expenditure plans provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

- 5.44 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
External Debt					
PWLB debt at 1 April	81,605	81,605	81,605	84,627	84,627
Expected change in Debt	-	-	3,022	-	-
Other long- term liabilities (OLTL)	892	674	451	223	-
Expected change in OLTL	(218)	(223)	(228)	(223)	-
Actual gross debt at 31 March	82,279	82,056	84,850	84,627	84,627
The Capital Financing Requirement	92,088	91,605	94,149	93,685	93,454
Under / (over) borrowing	9,809	9,549	9,299	9,058	8,827

- 5.45 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.
- 5.46 The Head of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This

view takes into account current commitments, existing plans, and the proposals contained in the Financial Plan for 2020/21 to 2023/24.

Treasury Indicators: limits to borrowing activity

- 5.47 **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 £m	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Debt	92,140	94,692	94,237	94,015
Other long term liabilities	451	1,223	1,000	1,000
Total	92,591	95,915	95,237	95,015

- 5.48 **The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:-

Authorised limit £m	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Debt	103,640	106,192	105,737	105,515
Other long term liabilities	451	1,223	1,000	1,000
Total	104,091	107,415	106,737	106,515

Prospects for interest rates

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

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

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

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

5.52 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western

central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

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

Investment and borrowing rates

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. (Please note that Link has concerns over this approach, as the fundamental principle of local authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.) It also introduced the following rates for borrowing for different types of capital expenditure: -
 - PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
 - PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
 - PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
 - PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
 - Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

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- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -
 - PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
 - PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
 - PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
 - PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
 - Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- Borrowing for capital expenditure. As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.
- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost

Borrowing strategy

- 5.54 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 5.55 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 5.56 Any decisions will be reported to members appropriately at the next available opportunity.

Treasury management limits on activity

- 5.57 Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- 5.58 The Council is asked to approve the following treasury indicators and limits:-

Maturity structure of fixed interest rate borrowing 2021/22

	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2021/22

	Lower	Upper
Under 12 months	0%	75%
12 months to 2 years	0%	75%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years and above	0%	75%

Policy on borrowing in advance of need

- 5.59 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.
- 5.60 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.

Debt rescheduling

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

New financial institutions as a source of borrowing and / or types of borrowing

- 5.62 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following in order to finance capital expenditure for non-HRA and infrastructure purposes:
- Local authorities (primarily shorter dated maturities)
 - Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
 - Municipal Bonds Agency (no issuance at present but there is potential)

- 5.63 The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

Annual Investment Strategy

Investment policy – management of risk

- 5.64 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
- 5.65 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious damage or whose activities are inconsistent with the councils' mission and values. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions.
- 5.66 The above guidance from the MHCLG and CIPFA place 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: -
- (a) 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.
 - (b) 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 this end 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.
 - (c) 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.
- 5.67 This authority has defined the list of types of investment instruments that the treasury management team are authorised to use, as per **APPENDIX 2**.
- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

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- 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.
- 5.68 **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.
- 5.69 **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in the **APPENDIX 2**.
- 5.70 **Transaction limits** are set for each type of investment in **APPENDIX 2**.
- 5.71 This authority will set a limit for the amount of its investments which are invested for longer than 365 days.
- 5.72 Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.
- 5.73 This authority has engaged external consultants, 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.
- 5.74 All investments will be denominated in sterling.
- 5.75 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. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness policy

- 5.76 The 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.
- 5.77 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:-
- Yellow 5 years

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

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

5.79 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalent) of short term rating F1 and a long term rating of A- or equivalent. 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.

5.80 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our 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 weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

5.82 The Council has determined that it will only use approved counterparties from the UK and countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in **APPENDIX 3**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Creditworthiness

5.83 Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating

changes reflected these provisions. As we move into future quarters, more information will emerge on actual levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

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

CDS Prices

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

Investment Strategy

- 5.86 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.

- 5.87 **Investment returns expectations.** Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may

be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

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

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

- 5.89 The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus. It may also be affected by what, if any, deal the UK agrees as part of Brexit..
- 5.90 There is relatively little UK domestic risk of increases or decreases in Bank Rate and shorter term PWLB rates until 2023/24 at the earliest.
- 5.91 **Negative investment rates** - While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.
- 5.92 As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.
- 5.93 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.
- 5.94 **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			
	2021/22	2022/23	2023/24
Principal sums invested > 365 days	£10m	£10m	£10m

- 5.95 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Investment risk benchmarking

- 5.96 This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 1, 3, 6 or 12 month LIBID un compounded. The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

End of year investment report

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

6 Implications

6.1 Financial

Included in the report.

6.2 Legal

None.

6.3 Human Resources

None.

6.4 Risk Management

The Council regards security of the sums it invests to be the key objective of its treasury management activity. Close management of counterparty risk is therefore a key element of day to day management of treasury activity. The practices designed to ensure that risks are managed effectively are set out in the Treasury Management Practices available on the Council's website.

6.5 Equality & Diversity

The Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

6.6 Climate Change

The Councils investment policy now includes a criteria that the Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious damage or whose activities are inconsistent with the councils' mission and values

7 Appendices to the Report

Appendix 1: Economic Background

Appendix 2: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Appendix 3: Approved Countries for Investment

Appendix 4: Treasury Management Scheme of Delegation

Appendix 5: The Treasury Management Role of the Section 151 Officer.

Previous Consideration

None.

Background Papers

None.

Economic Background

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

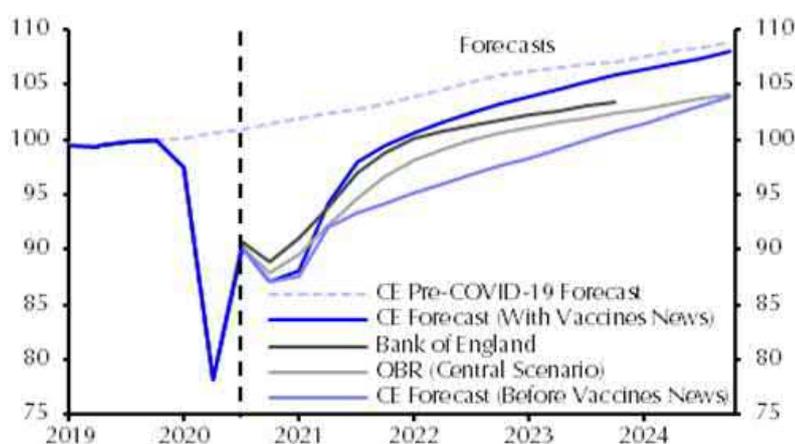
Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.

- As for **upside risks**, we have been waiting expectantly for news that various **COVID19 vaccines** would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don't know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.
- However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.
- **Public borrowing** is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the

Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

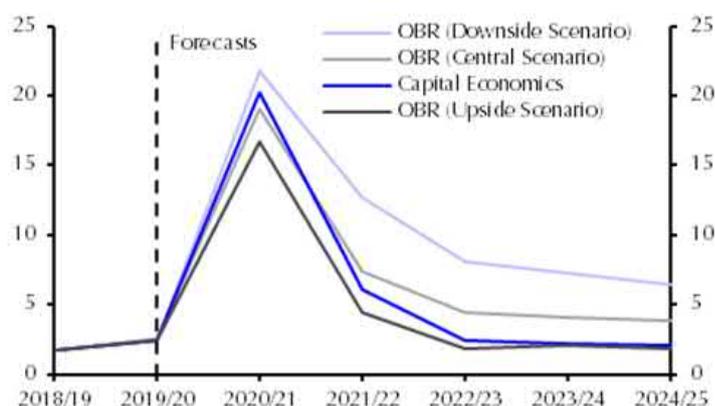
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast will happen now that there is high confidence that successful vaccines will be widely administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.

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



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to 2% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assume that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

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



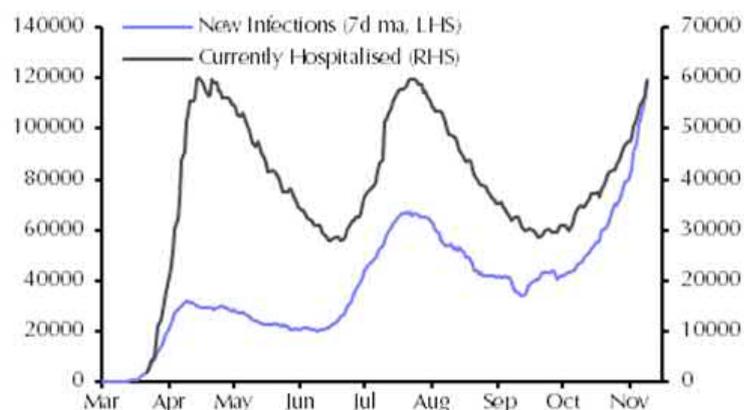
- Capital Economics have not revised their forecasts for Bank Rate or gilt yields after this major revision of their forecasts for the speed of recovery of economic growth, as they are also forecasting that inflation is unlikely to be a significant threat and so gilt yields are unlikely to rise significantly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

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

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the **pandemic** with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter

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

COVID-19 New infections & hospitalisations



However, with the likelihood that highly effective vaccines are going to become progressively widely administered during 2021, this should mean that life will start to return to normal during quarter 2 of 2021. Consequently, there should be a sharp pick-up in growth during that quarter and a rapid return to the pre-pandemic level of growth by the end of the year.

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

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

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle during the closing and opening quarters of this year and next year respectively before it finally breaks through into strong growth in quarters 2 and 3. The ECB will now have to review whether more monetary support will be required to help recovery in the shorter term or to help individual countries more badly impacted by the pandemic.

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

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

Japan. Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform

of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.

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

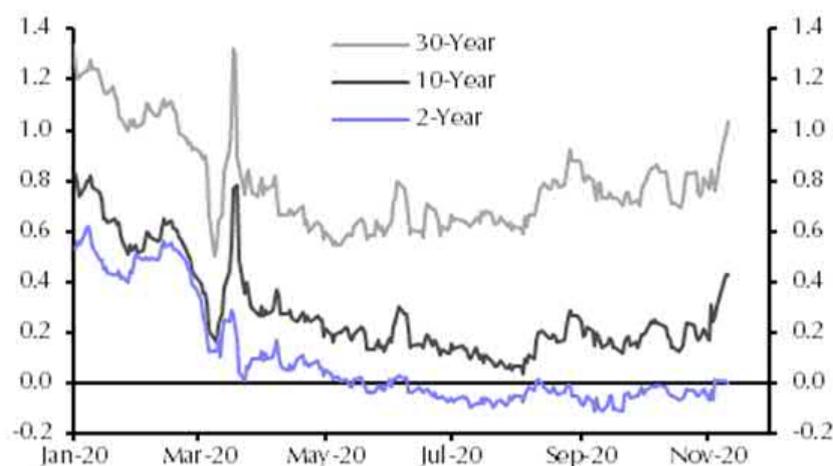
Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering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

Summary

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

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

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



INTEREST RATE FORECASTS

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

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

The real risk is if the UK and the EU completely fall out. The UK could override part or all of the Withdrawal Agreement while the EU could respond by starting legal proceedings and few measures could be implemented to mitigate the disruption on 1.1.21. In such an "uncooperative no deal", GDP could be 2.5% lower in 2021 as a whole than if there was a deal. The acrimony would probably continue beyond 2021 too, which may lead to fewer agreements in the future and the expiry of any temporary measures.

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

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

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

The balance of risks to the UK

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

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

- **UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.
- **UK / EU trade negotiations** – if they were to cause significant economic disruption and downturn in the rate of growth.
- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.

- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK** - a significant rise in inflationary pressures. These could be caused by an uncooperative Brexit deal or by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population which leads to a resumption of normal life and a return to full economic activity across all sectors of the economy.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.
- **Post-Brexit** – if a positive agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.

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**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 50% will be held in aggregate in non-specified investments.

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	100%	6 months
UK Government gilts	UK sovereign rating	£6 million	5 years
UK Government Treasury bills	UK sovereign rating	£6 million	12 months
Bonds issued by multilateral development banks	AAA	£6 million	5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNAV	AAA	100%	Liquid
Money Market Funds VNAV	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid

	Minimum credit criteria / colour band	Max % of total investments/ £ limit per institution	Max. maturity period
Local authorities	N/A	100%	12 months
Call Accounts	N/A	£6 million	Liquid
Term deposits with housing associations	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£6 million	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£6 million	12 months

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Approved Countries for Investment

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

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

Treasury Management Scheme of Delegation

Full Council

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

Committees/Council

- 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 regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

Body/person(s) with responsibility for scrutiny

- 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;
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe.